

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-12390

QUANTUM CORPORATION

Incorporated Pursuant to the Laws of the State of Delaware

IRS Employer Identification Number 94-2665054
500 McCarthy Blvd., Milpitas, California 95035

(408) 894-4000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of January 19, 1996: 53,008,394

QUANTUM CORPORATION

10-Q REPORT

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QUANTUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	Dec. 31, 1995	Jan. 1, 1995	Dec. 31, 1995	Jan. 1, 1995
Sales	\$1,215,872	\$ 932,702	\$3,190,235	\$2,384,175
Cost of sales	1,101,917	797,447	2,809,365	1,970,113
Gross profit	113,955	135,255	380,870	414,062
Operating expenses:				
Research and development	63,681	54,004	173,939	111,158
Sales and marketing	37,211	28,355	105,716	74,221
General and administrative	17,730	14,218	45,365	35,901
Purchased research and development and in merger costs	--	72,945	--	72,945
	118,622	169,522	325,020	294,225
Income (loss) from operations	(4,667)	(34,267)	55,850	119,837
Other (income) expense:				
Interest expense	10,168	8,301	25,633	15,306
Interest and other income	(6,193)	(2,300)	(10,390)	(7,835)
	3,975	6,001	15,243	7,471
Income (loss) before income taxes	(8,642)	(40,268)	40,607	112,366
Income tax provision (benefit)	(6,161)	8,042	8,121	53,832
Net income (loss)	\$ (2,481)	\$ (48,310)	\$ 32,486	\$ 58,534
Net income (loss) per share:				
Primary	\$ (0.05)	\$ (1.06)	\$0.60	\$1.24
Fully diluted	\$ (0.05)	\$ (1.06)	\$0.59	\$1.10
Weighted average common and common equivalent shares:				
Primary	52,941	45,448	54,465	47,180
Fully diluted	52,941	45,448	62,862	58,889

See accompanying notes to consolidated financial statements

QUANTUM CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands)
(unaudited)

	December 31, 1995	March 31, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 136,006	\$ 187,753
Accounts receivable, net of allowance for doubtful accounts of \$10,398 and \$11,963	704,008	497,887
Inventories	519,328	324,650
Deferred taxes	43,907	44,054
Other current assets	41,183	35,580
Total current assets	1,444,432	1,089,924
Property and equipment, net of accumulated depreciation of \$158,660 and \$119,831	363,225	280,099
Purchased intangibles, net	72,114	95,818
Other assets	14,426	15,187

	----- \$ 1,894,197 =====	----- \$ 1,481,028 =====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 518,733	\$ 355,117
Accrued warranty expense	62,518	57,001
Accrued compensation	39,540	54,917
Income taxes payable	--	17,566
Accrued exit costs	21,785	32,213
Short-term debt	50,000	50,000
Other accrued liabilities	61,981	77,227
	-----	-----
Total current liabilities	754,557	644,041
Subordinated debentures	132,933	212,500
Long-term debt	355,000	115,000
Shareholders' equity:		
Common stock	250,928	141,154
Retained earnings	400,779	368,333
	-----	-----
Total shareholders' equity	651,707	509,487
	-----	-----
	\$ 1,894,197	\$ 1,481,028
	=====	=====

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Nine Months Ended	
	December 31, 1995	January 1, 1995
	-----	-----
Cash flows from operating activities:		
Net income	\$ 32,486	\$ 58,534
Gain on sale of equity investment	(3,844)	--
Items not requiring the current use of cash:		
Depreciation and amortization	70,112	33,705
Purchased research and development	--	67,184
Changes in assets and liabilities:		
Accounts receivable	(209,400)	(90,854)
Inventories	(200,099)	(41,839)
Accounts payable	164,451	83,460
Income taxes payable	(20,177)	17,726
Accrued warranty expense	5,692	145
Other assets and liabilities	(12,025)	28,403
	-----	-----
Net cash provided by (used in) operating activities	(172,804)	156,464
	-----	-----
Cash flows from investing activities:		
Purchase of short-term investments	--	(105,474)
Sales and maturities of short-term investments	--	128,201
Investment in property and equipment	(152,641)	(79,786)
Proceeds from sale of equity investment	5,875	--
Proceeds from sale of distribution subsidiary	5,276	--
Purchase of Digital Equipment's Data Storage Business	--	(355,171)
	-----	-----
Net cash provided by (used in) investing activities	(141,490)	(412,230)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of short term note	--	70,000
Proceeds from revolving line of credit and term loan borrowings	315,000	220,500
Principal payments on short term note	--	(70,000)
Principal payments on senior credit facility	(75,000)	(25,500)
Proceeds from issuance of common stock, net	22,547	8,611
	-----	-----
Net cash provided by financing activities	262,547	203,611
	-----	-----
Net decrease in cash and cash equivalents	(51,747)	(52,155)
Cash and cash equivalents at beginning of period	187,753	217,531
	-----	-----
Cash and cash equivalents at end of period	\$ 136,006	\$ 165,376
	=====	=====
Supplemental disclosure of cash flow information:		

Cash paid during the period for:		
Interest	\$ 25,105	\$ 17,297
Taxes	\$ 27,979	\$ 31,594

See accompanying notes to consolidated financial statements.

QUANTUM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Basis of presentation

The accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for the full fiscal year. The accompanying financial statements should be read in conjunction with the audited financial statements of Quantum Corporation for the fiscal year ended March 31, 1995.

2. Inventories

Inventories consisted of the following:
(In thousands)

	December 31, 1995	March 31, 1995
	-----	-----
Materials and purchased parts	\$157,149	\$116,732
Work in process	148,078	42,091
Finished goods	214,101	165,827
	-----	-----
	\$519,328	\$324,650
	=====	=====

3. Net income (loss) per share

Net income (loss) per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding. Net income per share computed on a fully diluted basis assumes conversion of the Company's outstanding convertible subordinated debentures. For the three month periods ended December 31, 1995, and January 1, 1995, net income (loss) per share, on a fully diluted basis, did not assume conversion of the outstanding debentures because the effect would have been anti-dilutive.

4. Debt

In October 1994, the Company entered into a three year \$350 million senior credit facility structured as a \$225 million revolving credit line and a \$125 million term loan. The revolving credit is governed by a borrowing base of eligible accounts receivable and inventory, and the term loan amortizes in five equal semiannual installments which commenced in October 1995, for a remaining balance of \$100 million at December 31, 1995. The borrowings, at the option of the Company, bear interest at either LIBOR plus a margin or a base rate with option periods of one to six months. The facility is secured by all the Company's domestic assets and 66% of the Company's ownership of certain of its subsidiaries.

As subsequently amended, the revolving credit line has been increased to \$325 million and has been extended one year to expire in September 1998.

The Company also has a one-year \$85 million unsecured Letter of Credit facility with certain banks to issue standby letters of credit to Matsushita-Kotobuki Electronics and its affiliates, which expires in September 1996. As of December 31, 1995, there was no outstanding balance under this letter of credit facility.

The Company was not in compliance with one of its financial covenants in connection with its senior credit facility as of December 31, 1995; however, the Company has since received a waiver of this non-compliance.

The Company's convertible subordinated debentures due 2002 became redeemable at the Company's option on or after April 2, 1995, at prices ranging from 104.5% of the principal to 100% at maturity. Each debenture is convertible, at the option of the holder, into the Company's common stock at a conversion price of approximately \$18.15 per share. There were no conversions during the three months ended December 31, 1995. In the nine months ended December 31, 1995, a total of \$79,567,000 of the debentures, approximately 37%, were converted, resulting in the issuance of 4,383,477 shares.

5. Acquisition of businesses from Digital Equipment Corporation

On October 3, 1994, Quantum Corporation ("Quantum" or "the Company") acquired the Hard Disk Drive, Heads and Tape Drives Businesses of the Storage Business Unit of Digital Equipment Corporation ("the Acquired Businesses"), in a transaction accounted for as a purchase. The operating results of the Acquired Businesses from the date of the purchase through December 31, 1995, have been reflected in the Company's consolidated financial statements.

The unaudited pro forma combined condensed results of operations for the Company for the three months and nine months ended January 1, 1995, had the Acquisition occurred at the beginning of the period, and which eliminates the non-recurring charges, are as follows:

(in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	Dec. 31, 1995 (actual)	Jan. 1, 1995 (pro forma)	Dec. 31, 1995 (actual)	Jan. 1, 1995 (pro forma)
Net sales	\$ 1,215,872	\$ 932,702	\$ 3,190,235	\$ 2,806,960
Net income (loss)	\$ (2,481)	\$ 22,874	\$ 32,486	\$ 52,820
Net income (loss) per share:				
Primary	\$ (0.05)	\$ 0.48	\$ 0.60	\$ 1.12
Fully diluted	\$ (0.05)	\$ 0.42	\$ 0.59	\$ 1.00

The unaudited pro forma results for the three months and nine months ended January 1, 1995, exclude the effects of the charge for purchased research and development and other merger costs of \$73 million, as such amounts are non-recurring. The pro forma results for the three and nine months ended January 1, 1995, and the actual results for the three and nine months ended December 31, 1995, reflect intangible asset amortization, depreciation of acquired fixed assets, amortization of loan fees and interest expense on the new debt related to the Acquisition.

The unaudited pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have occurred had the transaction been completed at the beginning of the period indicated, nor is it necessarily indicative of future operating results.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

On November 8, 1995, the Company announced a plan to resize the infrastructure associated with its high-capacity products into the Workstation and Systems Storage Group ("WSSG"). During the third quarter of fiscal 1996, the Company recorded a pre-tax charge of \$38 million, \$36 million of which impacted cost of goods sold. This charge includes canceling a certain development program, accelerating end-of-life plans for lower gross margin products and severance costs.

SALES. Sales for the three and nine months ended December 31, 1995, were \$1,216 million and \$3,190 million, respectively, compared to \$933 million and \$2,384 million for the corresponding periods in fiscal 1995. The increase in consolidated sales on a year-to-year basis was attributable to increased unit shipments and a change in sales mix to higher-priced products, partially offset by a decline in average unit prices. Unit shipments for the third quarter of fiscal 1996 increased 31% compared to the corresponding period in fiscal 1995, with sales for the third quarter of fiscal 1996 increasing 30% over the third quarter of fiscal 1995. For the nine months ended December 31, 1995, unit shipments increased 24% and sales increased 34% over the comparable period in fiscal 1995, principally due to a higher sales level of desktop and portable storage products. Sales of a limited number of desktop and portable storage products represented a significant majority of sales for the nine months ended December 31, 1995. The Company anticipates that this trend will continue in the future.

Sales to the top five customers for the three and nine months ended December 31, 1995, represented 41% and 45% of sales, respectively, with two customers having sales greater than 10% of sales for each period. For the corresponding periods in fiscal 1995, sales to the top five customers represented 46% and 45% of sales, with three customers having sales greater than 10% of sales for the third quarter of fiscal 1995, and two customers for the first nine months of fiscal 1995. Any significant decrease in sales to a major customer or the loss of a major customer could have a material adverse effect on the Company's results of operations.

GROSS MARGIN. The gross margin for the quarter ended December 31, 1995, decreased to 9.4% from 14.5% for the third quarter of fiscal 1995. The Company's gross margin for the first nine months of fiscal 1996 was 11.9%, compared to 17.4% for the corresponding period in fiscal 1995. Gross margin

decreased from the previous fiscal year as a result of the impact of the charge associated with the resizing of the infrastructure of WSSG, as well as higher costs and lower-than-anticipated unit volumes in the high-capacity product line due in part to delays in customer qualifications. The \$38 million resizing charge recorded during the third quarter of fiscal 1996 impacted gross margin by \$36 million. Without such resizing charge, gross margin for the third quarter of fiscal 1996 would have been 12.3%. In the future, gross margin may be affected by pricing and other competitive conditions, as well as the Company's ability to phase out the older, lower gross margin product lines and transition to higher margin products incorporating advances in technology. See "Trends and Uncertainties," below, for a discussion of certain other factors that may affect the Company's gross margin.

RESEARCH AND DEVELOPMENT EXPENSES. Research and development expenses for the third quarter of fiscal 1996 were \$64 million, or 5.2% of sales, compared to \$54 million, or 5.8% of sales in the corresponding period in fiscal 1995. For the first nine months of fiscal 1996, research and development expenses were \$174 million, or 5.5% of sales, compared to \$111 million, or 4.7% of sales, in the corresponding period in fiscal 1995. This increase in research and development spending in absolute dollars is due primarily to higher expenses related to preproduction activity for a larger number of new products. For the nine months, the increase reflects the impact of spending for both the recording heads business and the additional high-capacity disk drive products. The mass storage industry, particularly the hard disk drive business, is subject to rapid technological advances, and the future success of the Company is dependent upon continued development and timely introduction of new products and technologies. As a result, the Company expects to continue to make significant expenditures for research and development. See "Trends and Uncertainties," below.

SALES AND MARKETING EXPENSES. Sales and marketing expenses in the third quarter of fiscal 1996 were \$37 million, or 3.1% of sales, compared to \$28 million, or 3.0% of sales in the corresponding period in fiscal 1995. Sales and marketing expenses for the first nine months of fiscal 1996 were \$106 million, or 3.3% of sales, compared to \$74 million, or 3.1% of sales, in the corresponding period in fiscal 1995. The increase is principally due to the costs associated with supporting the Company's higher volume of sales.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses in the third quarter of fiscal 1996 were \$18 million, or 1.5% of sales, compared to \$14 million, or 1.5% of sales in the corresponding period in fiscal 1995. General and administrative expenses for the first nine months of fiscal 1996 were \$45 million, or 1.4% of sales, compared to \$36 million, or 1.5% of sales, in the corresponding period in fiscal 1995. The increase in absolute dollars is primarily related to the expansion of the Company's infrastructure. The percentage decline is due to the increase in sales.

OTHER (INCOME) EXPENSE. Net interest and other income/expense was \$4.0 million net expense for the quarter ended December 31, 1995, and \$6.0 million for the corresponding period in fiscal 1995. Net interest and other income/expense for the nine months ended December 31, 1995, was \$15.2 million, compared to \$7.5 million in the corresponding period in fiscal 1995. The increase in net interest expense due to higher levels of borrowing was offset by other income from the sale of stock from a minority investment by the Company.

INCOME TAXES. The effective tax rate for the nine months ended December 31, 1995, was 20%, compared to the nine months ended January 1, 1995 effective rate of 30%, excluding purchased research and development charges. For fiscal 1996, the effective tax rate is below the combined U.S. federal and state statutory rates primarily as a result of the tax benefit associated with the income of foreign subsidiaries taxed at lower than the combined U.S. federal and state income tax rates.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1995, the Company had \$136 million in cash and cash equivalents and short-term investments, compared to \$188 million at March 31, 1995. The decrease in cash is primarily a result of cash used in operating and investing activities offset by cash provided by financing activities. Cash used in operating and investing activities is primarily a result of increases in accounts receivable and inventories and investing in property and equipment, partially offset by an increase in accounts payable. Cash provided by financing activities is primarily a result of borrowing under the credit facility as described below.

In October 1994, the Company entered into a three year \$350 million senior credit facility structured as a \$225 million revolving credit line and a \$125 million term loan. The revolving credit is governed by a borrowing base of eligible accounts receivable and inventory, and the term loan amortizes in five equal semiannual installments which commenced in October 1995, for a remaining balance of \$100 million at December 31, 1995. The borrowings, at the option of the Company, bear interest at either LIBOR plus a margin or a base rate with option periods of one to six months. The facility is secured by all the Company's domestic assets and 66% of the Company's ownership of certain of its subsidiaries.

As subsequently amended, the revolving credit line has been increased to \$325 million and has been extended one year to expire in September 1998.

The Company also has a one-year \$85 million unsecured Letter of Credit facility with certain banks to issue standby letters of credit to MKE and its affiliates, which expires in September 1996. As of December 31, 1995, there was no outstanding balance under this letter of credit facility.

During the fourth quarter of fiscal 1996, the Company and MKE have agreed that the Company will return to its normal payment terms for product manufactured by MKE. During the fourth quarter of fiscal 1996, this change is expected to result in incremental cash requirements for the company of an estimated \$50-\$70 million. However, this forward-looking statement assumes customer demand and MKE's production and shipment levels to the Company are consistent with the Company's projections, and actual results could vary for the reasons discussed in "Trends and Uncertainties."

The Company was not in compliance with one of its financial covenants in connection with its senior credit facility as of December 31, 1995; however, the Company has since received a waiver of this non-compliance.

The Company's Convertible Subordinated Debentures due 2002 became redeemable at the Company's option on or after April 2, 1995, at prices ranging from 104.5% of the principal to 100% at maturity. Each debenture is convertible, at the option of the holder, into the Company's common stock at a conversion price of approximately \$18.15 per share. During the first half of fiscal 1996, \$79,567,000, or approximately 37%, of the outstanding debentures were converted into the Company's Common Stock. This conversion resulted in the issuance of 4,383,477 shares.

The Company expects to spend approximately \$40 million for leasehold improvements, capital equipment and expansion of the Company's facilities for the remainder of fiscal 1996. Over the next twelve months, the Company anticipates that capital spending will continue at a similar level. These capital expenditures will be to support the recording heads and tapes businesses as well as to support general corporate operations.

In conjunction with the purchase of the Acquired Businesses in October 1994, the Company recorded an accrual for exit costs related to exiting facilities and operations acquired from Digital Equipment Corporation. The Company anticipates that cash outlays during the fourth quarter of fiscal 1996 for these exit activities will be approximately \$23 million. During the nine months ended December 31, 1995, there were \$5 million in cash outlays related to the exit costs.

The Company anticipates that cash outlays during fiscal 1996 related to the \$38 million third quarter charge associated with WSSG will be approximately \$20 million and during the quarter ended December 31, 1995, there were \$3 million in cash outlays related to this charge.

On January 30, 1996, the Company announced its intention to transition the manufacturing of its WSSG high-capacity products to Matsushita-Kotobuki Electronics Industries, Ltd. ("MKE") of Japan. Additionally, the Company announced the expectation of a fourth quarter non-recurring charge associated with the closure of the Company's two manufacturing facilities in Penang, Malaysia and Milpitas, California, ranging from \$160-\$190 million. The Company anticipates that the cash portion of this charge will be approximately \$60-\$70 million, which is estimated to be paid over the next three quarters. The Company's forecast of the size of the fourth quarter charge is forward-looking information, and actual results could vary for the reasons discussed in "Trends and Uncertainties."

On February 5, 1996, the Company announced plans to issue approximately \$200 million of Convertible Subordinated Notes. These Notes will have a term of 7 years and will bear interest at a rate to be determined upon issuance. The net proceeds received from this issuance will be used to pay outstanding borrowings under the term loan and revolving loan facilities. The \$100 million amount outstanding under the term loan will not be available for reborrowing. Remaining proceeds, including incremental availability under the revolving loan facility, will be used for working capital and general corporate purposes and will be invested in interest bearing short-term instruments.

The Company believes that its existing capital resources, including its credit facilities and any cash generated from operations, in addition to the pending Notes issuance as described above, will be sufficient to meet all currently planned expenditures and sustain operations for the next twelve months. However, this forward-looking statement assumes that operating results and cash flow from operations will meet the Company's expectations, and actual results could vary due to the factors described below. The Company continues to work to identify additional sources of cash and there can be no assurance that if required, the Company will be able to obtain such financing on acceptable terms, or at all.

The following discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include the expected benefits of transitioning the manufacturing of the Company's high-capacity hard disk drive products to MKE, as well as management's expectations regarding financial results for the fourth quarter of fiscal 1996 and for fiscal 1997. Actual results could differ materially from those projected in the forward-looking statements as a result of the factors set forth below and elsewhere in this report.

On January 30, 1996, the Company announced its intention to transition the manufacturing of its WSSG high-capacity products to MKE. Additionally, the Company announced the expectation of a fourth quarter non-recurring charge associated with the closure of the Company's two manufacturing facilities in Penang, Malaysia and Milpitas, California, ranging from \$160-\$190 million. The charge will include capital equipment and inventory write-offs associated with the Company's high-capacity production facilities, and severance for approximately 1,800 regular and 450 temporary employees. As a result of this non-recurring charge, the Company expects to report a significant loss for the fourth quarter of fiscal 1996. The Company's forecast of the size of the fourth quarter charge is forward-looking information, and actual results could vary. The charge could be greater in the event demand for the Company's current high-capacity products declines faster than expected, resulting in excess inventory, or in the event the Company experiences unanticipated problems or incurs greater than expected costs in connection with the closure of its high-capacity manufacturing operations.

The Company expects that sales for the fourth quarter of fiscal 1996 will be comparable to third quarter sales levels. The Company expects sales from its high-capacity products, presently manufactured by the Company in Milpitas, California and Penang, Malaysia, to decline substantially in the second quarter of fiscal 1997, as the Company transitions customers to its newer generation high-capacity products to be manufactured by MKE. The high-capacity products currently under development are expected to achieve volume production and contribute to revenue in the latter half of fiscal 1997. The foregoing expectations are dependent upon continued market acceptance of the Company's desktop and specialty storage products, including those currently in development, as well as upon the successful completion of development, customer acceptance, and timely qualification of the high-capacity products by MKE, none of which can be assured.

The Company anticipates gross margin will improve during the second half of fiscal 1997 as the Company benefits from lower inventory and capital equipment spending, and improvements in manufacturing efficiencies as a result of its transition of the manufacturing of WSSG products to MKE. The Company expects that operating margins will increase in the fourth quarter of fiscal 1996, and further increase in fiscal 1997 as benefits from the reduction in expenses associated with the WSSG transition begin to be realized. However, the Company does not expect these efficiencies to be realized until the commencement of volume production of the high-capacity products at MKE, currently scheduled for the second half of fiscal 1997. The Company's expectations regarding improvements in gross margin and reductions in operating expenses in fiscal 1997 are dependent on the successful transition and cost-effective manufacturing of the high-capacity products, and assume that price competition or cost increases on these and other products will not offset the anticipated efficiencies associated with the change in manufacturing strategy for the WSSG.

FLUCTUATIONS IN RESULTS OF OPERATIONS. The Company's results of operations are subject to fluctuations from period to period. In this regard, the demand for the Company's hard disk drive products depends on the demand for the computer systems manufactured by its customers, which is affected by computer system product cycles and by prevailing economic conditions. Growth in demand for computer systems, especially in the PC market segment, where the Company derives a significant amount of its disk drive sales, has historically been subject to significant fluctuations. Such fluctuations in end user demand have in the past, and may in the future, result in the deferral or cancellation of orders for the Company's products. A slowdown in demand for PCs would have a material adverse effect on the Company's results of operations. During 1995, there was significant growth in the demand for PCs, a portion of which represented sales of PCs for use in the home. Although many analysts forecast continued strong growth in personal computer sales during 1996, such growth is expected to be at a slower rate than the rate experienced during 1995. Based on the foregoing, the Company could experience a decrease in demand for its products in the near future. Any such slowdown in demand would have a material adverse effect on the Company. The hard disk drive industry has also been subject, from time to time, to seasonal fluctuations in demand, with relatively flat demand in the quarter ending September 30 as compared to the quarter ending June 30 and increasing demand throughout the quarters ending December 31 and March 31. The Company's shipments tend to be highest in the third month of each quarter and failure by the Company to complete shipments in the final month could adversely affect the Company's operating results for the quarter.

The market for hard disk drives is characterized by intense competition and short product life cycles, and such factors typically result in a need to lower prices and introduce new, more cost effective products in a timely manner.

In this regard, the Company intends to introduce important new products during 1996, and there can be no assurance that it will be successful in this regard. If this does not occur, the Company would be materially and adversely affected. The hard disk drive industry also tends to experience periods of excess product inventory and intense price competition. If price competition intensifies, the Company may be forced to lower prices further than expected, which could adversely affect its sales and gross margin.

TRANSITION OF HIGH-CAPACITY MANUFACTURING OPERATIONS TO MKE. Since the Company's acquisition of Digital's high-capacity disk drive operations in late 1994, the Company has experienced significant difficulties in integrating these operations into its high-capacity business. These difficulties have included problems involving both the development and manufacturing of its high-capacity products and have resulted in, among other things, significant delays in meeting the qualification standards imposed by certain major customers of the Company's high-capacity disk drive products.

The Company's transition of its high-capacity manufacturing operations to MKE entails several risks, and there can be no assurance that the Company's efforts in this regard will be successful. The transition will require close and continuous collaboration between the Company and MKE in all phases of design, engineering and production of its high-capacity products. Although the Company has had a continuous manufacturing relationship with MKE since 1984, the Company's high-capacity products are more complex to manufacture than its desktop products. MKE has not previously manufactured any significant amount of the Company's high-capacity products and there can be no assurance that the Company's previous difficulties with its high-capacity products will be resolved or that new problems will not arise as a result of the transition of this manufacturing to MKE. Any failure of the Company to successfully manage this transition would have a material adverse effect on the Company's financial position and results of operations.

In addition, the Company's high-capacity manufacturing transition requires the successful introduction of two new products during 1996. These products are still in development and have not been released to customers for evaluation. The Company's product development efforts entail a number of risks, and there can be no assurance that the Company will be successful in these efforts.

DEPENDENCE ON MKE RELATIONSHIP. The Company is dependent upon MKE for the manufacture of its disk drive products. During fiscal 1995 and the first three quarters of fiscal 1996, approximately 80% and 75%, respectively, of the Company's sales were derived from products manufactured by MKE. The Company recently announced that it will transition the manufacturing of its high-capacity hard disk drive products to MKE. The Company and MKE have agreed that, following this transition, MKE will have the exclusive right to manufacture all of the Company's hard disk drive products.

The Company's relationship with MKE is critical to the Company's business and financial performance, and the Company relies on MKE for manufacturing capacity and related capital requirements, as well as product quality and timeliness of delivery.

MKE's production schedule is based on the Company's forecasts of its product purchase requirements, and the Company has only limited rights to modify short-term purchase orders issued to MKE. The failure of the Company to accurately forecast its requirements could lead to inventory shortages or surpluses which could adversely affect results of operations. In addition, the Company renegotiates pricing arrangements with MKE on a periodic basis. Failure to reach agreements reasonable to the Company with regard to pricing would adversely affect the Company.

The Company's relationship with MKE, which has been continuous since 1984, is currently governed by a master agreement that, unless extended, will expire in December 1997. This agreement was recently amended to include the manufacture of the Company's high-capacity hard disk drive products by MKE. The failure of the parties to extend their relationship, or the extension of the relationship on terms unfavorable to the Company, could have a material adverse effect on the Company if an appropriate alternative supplier is not identified and selected.

DEPENDENCE ON SUPPLIERS OF COMPONENTS AND SUB-ASSEMBLIES; COMPONENT SHORTAGES. The Company and its manufacturing partner, MKE, are dependent upon suppliers for components and sub-assemblies, including recording heads, media and integrated circuits, which are essential to the manufacture of the Company's products. In connection with certain products, the Company qualifies only a single source for certain components and sub-assemblies, which can magnify the risk of shortages. Component shortages have in the past constrained the Company's revenue growth. If such shortages occur, or if the Company experiences quality problems with component suppliers, shipments of products could be significantly delayed or costs significantly increased, which would have a material adverse effect on the Company's results of operations. The Company believes that the industry will periodically experience component shortages, and there can be no assurance that these issues will not adversely affect the Company's operating results.

NEW PRODUCT DEVELOPMENT. Quantum operates in an industry characterized by increasingly rapid technological changes and short product life cycles. For these and other reasons, including competitive pressures, gross margins on specific products can decrease rapidly and any delay in introduction of more advanced and more cost effective products can result in significantly lower sales and gross margins. The Company's future is therefore dependent on its ability to develop new products, to successfully introduce these products to the market on a timely basis and to commence volume production to meet customer demands. The Company's inability to successfully manage this transition could have a material adverse effect on the Company.

The Company is also currently engaged in a substantial effort to advance the development of its MR recording heads. MR technology is complex, and as is typical of new head technology, manufacturing yields begin at relatively low levels and increase throughout the product life of the recording head. Increases in the current levels of production yields for MR heads will be required for the Company to meet its manufacturing objectives for certain disk drive products scheduled for volume production in fiscal 1997. In the event that yields do not improve, there are limited alternative sources of supply for MR recording heads, and there can be no assurance that the Company will be able to locate and obtain adequate supply from such alternative sources.

In addition, technological advances in magnetic, optical or other technologies, or the development of new technologies, could result in the introduction of competitive products with superior performance to and substantially lower prices than the Company's products. Further, the Company's new products and components are subject to significant technical risks. If the Company experiences delays in the commencement of commercial shipments of new products or components, the Company could experience delays or loss of product sales. If the Company is unable, for technological or other reasons, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, the Company's business, operating results and financial condition would be materially adversely affected.

CUSTOMER CONCENTRATION. As is typical in the disk drive industry, the Company's customer base is concentrated with a small number of systems manufacturers. The Company's sales to its customers are generally governed by written agreements. Except with respect to the Company's agreement with Digital, none of these agreements obligates a customer to purchase any minimum volume of the Company's products, and such agreements are generally terminable at will by the customer.

Sales of the Company's desktop products, which comprise a significant majority of its overall sales, were concentrated during 1995 in several key customers. Sales to the top five customers of the Company during the nine months ended December 31, 1995 represented 45% of total sales, of which 12% represented sales to Apple and 11% represented sales to Compaq. The Company is generally unable to predict whether or not there will be any significant change in demand for its customers' products in the future. In the event that any such changes result in decreased demand for the Company's products, whether by loss or delays in orders, the Company would be materially adversely affected.

INTENSELY COMPETITIVE INDUSTRY. The mass storage products industry in general, and the disk drive industry in particular, is characterized by intense competition which results in rapid price erosion, short product life cycles, and continuous introduction of new products offering increased levels of capacity and performance. Quantum faces direct competition from a number of companies, including Seagate, Conner, Western Digital, IBM and Maxtor. Seagate and Conner have announced their intention to merge, and if such merger is consummated, it will result in the world's largest disk drive manufacturer. There can be no assurance that the Company can compete effectively with these or any other companies, and the Company is unable to predict the effect, if any, that the Seagate/Connor merger may have on the Company's business. In the event that the Company is unable to compete effectively with these or any other companies, the Company's business, financial condition or results of operations would be materially adversely affected.

INTELLECTUAL PROPERTY MATTERS. The hard disk drive industry has been characterized by significant litigation relating to patent and other intellectual property rights. The Company is from time to time approached by companies and individuals alleging Quantum's need for a license under patented technology that Quantum assertedly uses. There can be no assurance that licenses to any such technology, if required, could be obtained on commercially reasonable terms or at all. Adverse resolution of any intellectual property litigation could subject the Company to substantial liabilities and require it to refrain from manufacturing certain products. In addition, the costs of engaging in such litigation may be substantial, regardless of the outcome.

FUTURE CAPITAL NEEDS. The mass storage business is capital-intensive and competitive. Although the Company is in the process of transitioning the manufacturing of all of its hard disk drive products to MKE, the Company believes that in order to remain competitive in the mass storage business, it will need significant additional financial resources over the next several years for capital expenditures, working capital and research and development. The

Company believes that it will be able to fund these capital requirements from a combination of the proceeds of the Convertible Subordinated Note Offering, existing cash balances, cash flow from operations and funds available under its credit facilities. However, in the event the Company decides to increase its capital expenditures further or sooner than presently contemplated, or if results of operations do not meet the Company's expectations, the Company will require additional debt or equity financing. There can be no assurance that such additional funds will be available to the Company or, if available, will be available on favorable terms. In addition, the Company may require additional capital for other purposes not presently contemplated by the Company. If the Company is unable to obtain sufficient capital, it could be required to curtail its capital equipment and research and development expenditures, which could adversely affect the Company's future operations and competitive position.

QUANTUM CORPORATION

PART II - OTHER INFORMATION

Item 1. Legal proceedings

As previously reported, Quantum's declaratory judgment lawsuit against Rodime PLC of Glasgow, Scotland, resulted in a summary judgment that claims of Rodime's U.S. Patent No. 4,638,383 were invalid because of impermissible broadening in reexamination proceedings. This summary judgment was affirmed on September 22, 1995, by the U.S. Court of Appeals for the Federal Circuit. Subsequently, Rodime has petitioned the court for a rehearing and a hearing in banc. This petition was denied by the Court of Appeals on November 27, 1995. If the appellate decision is left undisturbed by any further appellate proceedings, including any U.S. Supreme Court review, Quantum believes that it is fully dispositive of its dispute with Rodime. Due to the inherent uncertainties of ongoing litigation, there can be no assurance that the appellate decision will become finally dispositive.

The Company was a co-defendant in a lawsuit filed by Supercom, Inc. and other named plaintiffs on April 17, 1995, in the United States District Court in and for the Northern District of California. The complaint alleged that the defendants were responsible for the initiation and execution of a search warrant relating to Quantum disk drives in the plaintiffs' possession, in violation of the plaintiffs' rights. The complaint included allegations of malicious prosecution, assault, abuse of process, conspiracy, negligent and intentional interference with contractual relations, negligent and intentional infliction of emotional distress and civil rights violation, and sought unspecified damages which the plaintiffs alleged were in excess of \$500,000. The Company believes that the plaintiffs' claims against Quantum are without merit, and the Company intended to vigorously defend itself. On December 18, 1995, Supercom requested the court to dismiss all charges against Quantum.

Item 2. Changes in securities - Not Applicable.

Item 3. Defaults upon senior securities - Not Applicable

Item 4. Submission of matters to a vote of security holders - Not Applicable.

Item 5. Other information - Not Applicable

Item 6. Exhibits and reports on Form 8-K.

(a) Exhibits. The exhibits listed on the accompanying index to exhibits immediately following the signature page are filed as part of this report.

(b) Reports on Form 8-K. None

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

QUANTUM CORPORATION
(Registrant)

Date: February 5, 1996

By: /s/ Joseph T. Rodgers
Joseph T. Rodgers
Executive Vice President, Finance
and Chief Financial Officer

QUANTUM CORPORATION

INDEX TO EXHIBITS

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LEASE

BETWEEN

QUANTUM CORPORATION ("TENANT")

AND

QD INVESTORS ("LANDLORD")

LEASE

THIS LEASE made this 22nd day of August, 1995, between Quantum Corporation, a Delaware corporation ("Tenant"), and QD Investors, a Colorado limited liability company ("Landlord").

W I T N E S S E T H:

DEMISE

Landlord does hereby lease to Tenant and Tenant hereby hires from Landlord an approximately 158,000 square foot building and related improvements (collectively referred to as the "Improvements") to be constructed on the land described in Exhibit A which is attached to and incorporated in this Lease (the "Property"). The Improvements and the Property are hereinafter sometimes collectively called the "Premises" or "Leased Premises." Landlord is building the Improvements according to the design and architectural requirements of Tenant.

This Lease is upon and subject to the terms, conditions, and covenants set forth below, and Tenant and Landlord covenant as a material part of the consideration for this Lease to keep and perform each and all of the terms, conditions, and covenants by them to be kept and performed and that this Lease is made upon the condition of such performance.

SECTION 1

PURPOSE

1.1 Use of Premises. The Premises are to be used for research and development, manufacturing, assembly, warehousing and related office functions or any other purpose, provided that such uses comply with all environmental laws, zoning and use restrictions, and restrictive covenants and conditions.

SECTION 2

TERM

2.1 Lease Term. The term of this Lease shall be for a period of fifteen (15) years (180 months), commencing at 12:01 A.M. on August 15, 1996, subject to Sections 3.3 and 31.5 of this Lease ("Commencement Date"), and ending fifteen (15) years from the Commencement Date ("Termination Date") (alternatively, the "Lease Term or Term"). Changes in the Commencement Date are specifically provided for in Section 3. If the Commencement Date falls on a day other than the first day of a month, the first and last

month's Base Rent shall be prorated based upon the number of days of the Lease Term in those months. Upon expiration of the Term, Tenant shall execute a Quit Claim Deed in favor of Landlord transferring all of Tenant's right, title, and interest in and to the Premises.

2.2 Lease Supplement. Upon the Commencement Date, Landlord and Tenant shall execute a supplement to this Lease confirming:

- a. The Commencement Date of this Lease;
- b. The Termination Date of the Lease Term of this Lease;
- c. The Landlord Work Costs and the annual Base Rent schedule referred to in Section 4.1;
- d. Other matters reasonably requested by Landlord.

SECTION 3

COMPLETION OF THE PREMISES

3.1 Building Construction. Landlord, subject to the terms and conditions of this Lease, shall construct ("Landlord's Work") the Improvements pursuant to the terms of this Lease and according to the Final Plans (hereinafter defined) approved by Landlord and Tenant, which shall be consistent with and constitute the natural evolution of the Design Development Drawings attached to and incorporated in this Lease as Exhibit B ("Design Development Drawings"). Except as set forth in this Lease, the Landlord shall not have any liability or obligation to pay any cost or expense or to perform any work arising out of or pertaining to the Premises or the ownership, construction, condition, or operation thereof after the Commencement Date.

3.2 Landlord's Work. While it is the intention of Landlord and Tenant that Landlord perform substantially all of the work required to construct the Improvements, Tenant has engaged various independent entities such as Oz Architecture ("Architect"), Sigmatech, Huntingdon Engineering & Environmental, Inc., and Anderson DeBartolo & Pan (collectively referred to as "Tenant's Consultants"). In addition, while the total cost of the Premises including land, permits, development costs and construction costs are expected to be substantially in excess of \$15,000,000, Landlord shall only be responsible to pay for a maximum of \$15,000,000 consisting of the categories of items set forth on Schedule II ("Landlord's Work Costs") which dollar amounts shall be completed as soon as the final budget information is available. Tenant shall be solely responsible to pay for any and all items necessary to construct the Improvements (including interest reserves during the construction loan period) which are not included in or are in excess of Landlord's Work Costs ("Tenant's Work Costs"). The anticipated scope of work categories for Tenant's Work Costs are set forth in the schedule which is attached to and incorporated in this Lease as Schedule III. Landlord shall enter into a cost plus contract with The Neenan Company to construct the Improvements ("Construction Contract") subject to Tenant's consent which

shall not be unreasonably withheld. At Tenant's election, Tenant shall have the right to review and approve all requests for payment made pursuant to the Construction Contract.

Architect shall have the right to review and approve Landlord's Work pursuant to the standard AIA provisions in the Construction Contract.

3.3 Description of Overall Responsibilities.

a. Plans and Specifications. Tenant's Consultants shall provide Landlord with all of the necessary final plans and specifications including working drawings ("Final Plans") required to construct the Improvements. Tenant's Consultants will be submitting partially complete plans and specifications to Landlord from time to time. By the dates set forth in the Plans Schedule, attached to and incorporated in this Lease as Schedule I ("Plans Schedule"), Tenant's Consultants shall provide Landlord with plans and specifications in a form and with a level of completeness reasonably satisfactory to Landlord so that Landlord may immediately commence construction without further delay or action requested by Tenant ("Constructable Plans"). Upon Landlord's receipt of Constructable Plans, Landlord shall promptly (1) proceed with the construction contemplated thereby without delay to the extent reasonably possible; and (2) review the Plans within fifteen (15) days of receipt and shall notify Tenant: (a) whether the Plans do not constitute Constructable Plans, (b) whether the scope of the Work is not consistent with the Design Development Drawings, (c) if the Substantial Completion Date (as defined below) and Beneficial Occupancy Date will need to be adjusted as a result of the impact of (a) or (b) above and (d) the number of days of Tenant Delay resulting from the above. Landlord and Tenant agree to use best efforts to agree on the above items. Landlord shall in no way be responsible for the layout, design or engineering of the Premises provided that Landlord constructs the Premises in conformance with the Constructable Plans and the Final Plans. Tenant specifically agrees that all Plans delivered to Landlord by Tenant's Consultants shall be deemed to have been approved by Tenant and that the

Improvements represented by such Plans are desirable and suitable for Tenant's anticipated needs. Once any Constructable Plans have been received and accepted by Landlord any changes shall be considered a change order subject to any necessary time delays or additional costs.

b. Performance Schedule. Landlord and Tenant acknowledge that the construction of the Improvements is being performed on a "fast-track" basis such that the final details and scope of the Improvements will not be known at the time of execution of this Lease. Based upon the Design Development Drawings Landlord and Tenant desire to cause the Improvements to be Substantially Completed (as defined below) by August 15, 1996, ("Substantial Completion Date"), and that Tenant have access to the Wafer Fabrication Areas (as described in more detail in Section 3.6 and Exhibit E) by June 1, 1996, in order for Tenant to begin fit up of those spaces. Accordingly, Landlord and Tenant shall each be obligated to use best efforts to perform their respective obligations within the time periods set forth in this Lease. Subject to the effect of a Tenant Delay as set forth in Section 3.3(c) below, the parties acknowledge that the Plans Schedule and Substantial Completion Date are only an estimate of the time needed to complete certain stages of the construction process and the failure of either party to accomplish any step in the process set forth in this Lease within the applicable time period shall not constitute a default by either party unless such failure constitutes a breach of the obligation of a party to use best efforts

to perform its obligations within the time period set forth in this Lease and appropriate notice has been given and a reasonable cure period has expired. In the event of such breach by Landlord, Tenant shall be entitled to exercise the right to purchase the Premises as set forth in Section 27 without regard to the first sentence of Section 27.

c. Tenant Delay. If Landlord shall be delayed in Substantially Completing Landlord's Work as a result of any act, neglect, failure, or admission of Tenant, its agents, servants, employees, contractors, subcontractors, or Tenant's Consultants, including without limitation, any of the following, such delay shall be deemed a "Tenant Delay":

1. Tenant's request for materials, finishes or installations which are not readily available at the time Landlord is ready to install the same;

2. Tenant's failure or delay in furnishing the Constructable or the Final Plans pursuant to the Plan Schedule or Landlord's and Tenant's agreement that regardless of whether Constructable Plans have been timely furnished, additional time will be required to Substantially Complete Landlord's Work due to a change of scope pursuant to Section 3.3(a);

3. Tenant's changes or revisions in the Constructable or Final Plans;

4. Tenant's failure to timely pay any portion of Tenant's Contribution (as defined below);

5. Any act by Tenant which interferes with or delays construction of the Improvements including Tenant's entry of the Premises to install any Tenant equipment, fixtures or finishes;

6. Any other act or omission by Tenant or its agents which delays formulation of the Constructable Plans or delays or interferes with Landlord's Work.

It is the intent of Landlord and Tenant that the commencement of Tenant's obligation to pay Rent under this Lease shall not be delayed to the extent the Substantial Completion Date is delayed by any Tenant Delays and, if any Tenant Delays occur, Tenant's obligation to pay Rent under this Lease shall commence as of the date it would otherwise have commenced absent delay caused by Tenant provided that within thirty (30) days of the occurrence of any Tenant Delay, Landlord shall notify Tenant in writing of the fact that such Tenant Delay has occurred and the known or anticipated extent of any such delay. With respect to subparagraphs 1 and 3 above, Landlord shall notify Tenant of the extent of Tenant Delay as soon as Landlord is able to ascertain the specific number of days. Landlord shall also use reasonable efforts to notify Tenant of any future Tenant delays that Landlord anticipates. If Substantial Completion does not occur on August 15, 1996, as a result of Force Majeure or other occurrences not constituting a Tenant Delay, then except as adjusted above with respect to delays caused by any Tenant Delays, the Commencement Date shall occur upon Substantial Completion.

d. Additional Costs. Tenant shall pay to Landlord a sum equal

to any additional cost to Landlord in completing Landlord's Work resulting from any Tenant Delay if, as a result thereof, the aggregate cost to complete Landlord's Work is increased. Any such sum shall be in addition to any sums payable pursuant to any other subsection of this Lease and shall be paid to Landlord within thirty (30) days after Landlord submits an invoice to Tenant. Any costs payable pursuant to this Section 3.3 shall be collectable in the same manner as Rent and, if Tenant defaults in the payment thereof, Landlord shall have the same rights as in the Event of Default by Tenant in the payment of Rent in addition to any other remedies and Landlord shall have no obligation to continue the performance of Landlord's Work until Tenant shall have cured such Default.

3.4 Substantial Completion and Punchlist. The Landlord shall notify Tenant of the anticipated Substantial Completion Date of Landlord's Work in a notice given to Tenant at least five (5) days prior to the Substantial Completion Date. Substantial Completion is defined as when the facility is available for occupancy by the Tenant such that the Tenant can operate with a minimum of interference by the Landlord and is complete in accordance with the Final Plans with the exception of punch list items of a minor nature and when the Landlord delivers to Tenant a Temporary Certificate of Occupancy or Certificate of Occupancy or an equivalent use or occupancy permit issued by the necessary governmental authorities. Upon the Substantial Completion Date, Landlord and Tenant shall set a mutually convenient time for Tenant, Landlord, Tenant's Consultants, and The Neenan Company to inspect the Premises at which time Tenant shall prepare and submit to Landlord a punchlist of items pertaining to the Premises which are incomplete or do not conform to the Final Plans. Upon completion of the inspection, Tenant shall acknowledge by execution of the Acceptance Letter in the form attached as Exhibit C that Substantial Completion of the Premises has occurred, subject to any punchlist items to be completed. Landlord shall complete the punchlist items within thirty (30) days thereafter subject to Tenant Delays and Force Majeure. If Tenant fails to confer with Landlord with respect to the Substantial Completion of the Premises within thirty (30) days after the Substantial Completion Date, then Landlord's Work shall be deemed complete and satisfactory in all respects and the Commencement Date shall be deemed to have occurred on the date set forth in Landlord's notice as the Substantial Completion Date.

3.5 Acceptance of Premises. By execution of the Acceptance Letter, Tenant shall be deemed conclusively to have accepted the Premises and to have acknowledged that the Premises are in the condition required by the Final Plans, except as to incomplete, or defective items specified in the Acceptance Letter or set forth in the punchlist and except for defects as hereinafter provided. Further, Landlord shall only be obligated to repair defects in the Building for a period of one (1) year after the Commencement Date, provided that Tenant notifies Landlord, in writing, of any such defects within the one (1) year period after the Commencement Date. Landlord shall have a reasonable period of time following receipt of said defect notice within which to correct such defects. Landlord shall not be responsible for the repair or completion of any defective or incomplete items of the Premises if the need for such repair or completion is not set forth in the Acceptance Letter, the punchlist or a timely delivered defect notice. Landlord shall not be responsible or have any liability for loss or damage to any fixtures, equipment or other property of Tenant or others installed or placed in the Premises by Tenant or on Tenant's behalf, by its servants,

employees, agents or independent contractors, except when caused by Landlord's negligence or willful misconduct.

3.6 Access by Tenant. Landlord shall permit Tenant and Tenant's agents to have reasonable access to the Premises seventy-five (75) days prior to the Substantial Completion Date (which access date is estimated to be June 1, 1996) in order that Tenant may perform special installations and make the Premises ready for Tenant's use and occupancy ("Beneficial Occupancy Date"). Landlord shall use reasonable efforts to have the Wafer Fabrication Area ready to accept Tenant's installations by the Beneficial Occupancy Date. All ventilation, mechanical systems, lighting, wall systems, filtration, process piping to point of connections, and wall, floor and ceiling finishes shall be complete as of the Beneficial Occupancy Date. The Wafer Fabrication Area shall be wiped down clean, starting on the date of Beneficial Occupancy Date, but a certification for cleanliness will not be provided as of the Beneficial Occupancy Date and such testing shall be subsequent to the filtration system being run through the purging operation. All dates regarding Beneficial Occupancy and Substantial Completion set forth in this Lease assumes that all clean rooms and Wafer Fabrication Area will be constructed with a "modified clean" protocol during construction. If Tenant requests that an "eight stage clean" protocol procedure be followed during construction, then notwithstanding any other provisions of this Lease substantial additional time will be required for the Beneficial Occupancy Date and the Substantial Completion Date. Such Tenant installation by Tenant shall not be deemed a Tenant acceptance of any portion of Landlord's Work. Tenant's occupancy upon the Beneficial Occupancy Date shall constitute a license only and not a lease and such license shall be conditioned upon:

a. Tenant working in harmony and not interfering with Landlord and Landlord's agents, contractors, workmen, mechanics and suppliers;

b. Tenant furnishing Landlord with such insurance and other security as Landlord may reasonably require against liabilities which may arise out of such entry. Landlord shall have the right to withdraw the license in the event that Tenant or Tenant's agents substantially interfere with Landlord's Work. Tenant agrees that Landlord shall not be liable in any way for any injury, loss, or damage which may occur to any of Tenant's property placed on or installations made in the Premises prior to the Commencement Date, the same being at sole risk, and Tenant agrees to protect, defend, indemnify, and hold harmless Landlord from all liabilities, costs, damages, fees and expenses arising out of or in connection with the activities of Tenant or its agents, contractors, suppliers, or workmen in or about the Premises except to the extent caused by the negligence or willful misconduct of Landlord's agents, contractors or representative; and

c. Tenant paying any and all Operating Expenses related to Tenant's presence on the Premises.

3.7 Financing. Landlord and Tenant have entered into an Interim Agreement executed on June 29, 1995, relating in part to certain financing issues. Landlord expects that its \$15,000,000 of financing will be available for disbursement on or before September 15, 1995 ("Landlord's Financing Date"). Tenant shall take all steps agreed upon between Tenant and such Lender in order to assure Landlord's lender the availability of Tenant's

Work Costs and in order to coordinate the funding of construction draws. If, for any reason other than a default of Landlord or Landlord's lender, Tenant fails to make funds available to meet its obligations to fund Tenant's Work Costs as set forth in the Interim Agreement or as agreed to with Landlord's lender within five (5) days of any due date of any payment, then Landlord shall be entitled to stop work on construction of the Premises until such payment is made and each day of work stoppage shall be one (1) day of Tenant Delay. If, for any reason other than a default of Landlord or Landlord's lender, Tenant fails to make any payment provided for above within thirty (30) days after Landlord's request for same, then Landlord may declare an Event of Default and immediately exercise any or all of its remedies under this Lease.

SECTION 4

RENT

4.1 Base Rent. Beginning with the Commencement Date and throughout the Lease Term, Tenant shall pay to Landlord a minimum annual rent ("Base Rent") equal to the product of .107 times the Landlord's Work Costs of \$15,000,000 which is \$1,605,000. At the beginning of the 30th month of the Lease Term and every 30 months thereafter, the then applicable Base Rent shall be increased 7.5%. The Base Rent under this Section 4.1 shall be payable to Landlord in equal monthly installments in the amounts set forth in Schedule IV, in advance, due on the first day of each month, at the address for Landlord set forth in Section 4.2 of this Lease.

4.2 No Offsets. Except as provided in Section 18.3(c), the Base Rent, Adjusted Base Rent, Operating Costs, Taxes, and all other sums or charges required by this Lease to be paid by Tenant to Landlord, (all of which are sometimes collectively referred to as "Rent") shall be paid to Landlord without abatement, deduction or offset, in lawful money of the United States of America, at 2290 East Prospect Road, Suite One, P. O. Box 2127, Fort Collins, Colorado 80522, Attention: Treasurer or to such other person or at such other place as Landlord may from time to time designate by thirty (30) days advanced written notice to Tenant.

4.3 Interest on Late Payments. Any Rent or other amount due from Tenant to Landlord under this Lease not paid within fifteen (15) days of when due shall bear interest from the date due, computed on a daily basis, until the date paid, at the rate of one and one-half percent (1-1/2%) per month until paid, but the payment of the interest shall not excuse nor cure any default by Tenant under this Lease. The failure to charge or collect default interest in connection with any one or more late payments shall not constitute a waiver of Landlord's right to charge and collect default interest in connection with any other similar or like late payments. The covenants in this Lease to pay Rent shall be independent of any other covenant set forth in this Lease. Notwithstanding the above, upon the first such late payment during any calendar year Landlord shall give notice of the late payment to Tenant and no interest shall be charged under this Section 4.3 provided Tenant makes the payment within ten (10) days following such notice. This interest charge shall be imposed without notice for all subsequent late payments during the calendar year.

4.4 Late Payment Charge. Further, and notwithstanding the interest charges provided for in the preceding Section 4.3, if any Rent or other amounts owing hereunder are not paid within fifteen (15) days of when due, Landlord and Tenant agree that Landlord will incur additional administrative and financial expenses and inconveniences, the amount of which will be difficult if not impossible to determine. Except as set forth in this Section 4.4, Tenant shall pay to Landlord an additional one time late charge for any late monthly payment of Rent in the amount equal to four percent (4%) multiplied by the late monthly payment. Notwithstanding the above, upon the first such late payment during any calendar year, Landlord shall give written notice of the late payment to Tenant and no late fee shall be charged under this Section 4.4 provided that the payment is made within ten (10) days following such notice. This late fee shall be imposed without notice for all subsequent late payments during the calendar year.

SECTION 5

TAXES AND OPERATING COST ADJUSTMENT FORMULA

5.1 Additional Rent. In addition to Base Rent, Tenant shall pay the Taxes and Operating Costs of the Premises in the manner, at the times, and in the amounts set forth in this Section 5.

5.2 Taxes.

a. Monthly Payment. Tenant shall pay all Taxes related to the Premises for each calendar year that occurs during any part of the Lease Term and provide evidence of such payment to Landlord at least fifteen (15) days prior to the payment delinquency date. At the request of Landlord's lender, Tenant shall pay to Landlord or Landlord's mortgagee on or before the first day of each calendar month until the next adjustment date (which period between adjustment dates is herein called a "Tax Deposit Year") one-twelfth of the estimated amount of the Taxes. Amounts paid under this Section 5.2(a) in any Tax Deposit Year shall be reconciled with amounts actually billed to Landlord for the same Tax Deposit Year, and provided there is any surplus remaining after the credit to Tenant and provided Tenant shall not then be in default under any of the provisions of this Lease, Landlord shall, at Landlord's option, either refund the amount of the surplus to Tenant within thirty (30) days following the end of the Tax Deposit Year or apply the surplus amount against any other amounts then due from Tenant to Landlord. If upon the reconciliation there is any deficiency in the amount of Taxes paid by Tenant, Landlord shall bill Tenant and Tenant shall pay the additional amount within thirty (30) days. Landlord shall provide Tenant written evidence of the timely payment, in full, of all Taxes prior to the date of delinquency.

b. Prorations. With respect to the calendar years occurring during the initial and last years of the Lease Term, the Taxes will be prorated between Landlord and Tenant so that Tenant pays only that portion thereof that is proportionate to that part of such calendar years elapsing during the Lease Term. Upon the expiration of the full Lease Term, Landlord will estimate the amount of the Taxes that are payable by Tenant with

respect to the then currently available assessed value and mil levy assessment information); and, within thirty (30) days after receiving written notice thereof, Tenant will pay such estimated amount to Landlord in discharge of its obligation to pay the Taxes with respect to such calendar year; or, if the amounts then paid by Tenant pursuant to Section 5.2(a) exceed Landlord's estimate of the prorated portion of Taxes for which Tenant is responsible, Landlord shall refund the difference within thirty (30) days. However, if such estimate proves to be inaccurate, either Landlord or Tenant may give written notice to the other of the amount of the actual Taxes for such calendar year, and Landlord and Tenant will re-prorate such Taxes based upon the actual amount thereof, promptly paying any adjustment between them. In determining the amount of Taxes for any calendar year, the amount of special assessments to be included shall be limited to the amount of the installment (plus any interest payable thereon) of such special assessment which would have been required to have been paid during such calendar year if Landlord had elected to have the special assessment paid over the maximum period of time permitted by law, if the election is available to Landlord. All reference to Taxes "for" and "billed for" a particular calendar year shall be deemed to refer to Taxes levied, assessed, billed or otherwise imposed for such calendar year, without regard to the dates when any such Taxes are due and payable.

c. Definition. As used in this Lease, the term "Taxes" means any and all general and special taxes and impositions of every kind and nature whatsoever levied, assessed, or imposed upon, or with respect to, the Premises,

any leasehold improvements, fixtures, installations, additions, and equipment, whether owned by Landlord or Tenant, or either because of or in connection with Landlord's ownership, leasing, and operation of the Premises, including, without limitation, real estate taxes, personal property taxes, sewer rents, water rents, general or special assessments, and duties or levies charged or levied upon or assessed against the Premises and personal property, all costs and expenses (including legal fees and court costs) charged for the protest or reduction of property taxes or assessments in connection with the Premises, provided that prior written consent to such protest is granted by Tenant, or any tax or excise on rent or any other tax (however described) on account of rental received for use and occupancy of any or all of the Premises, whether any such taxes are imposed by the United States, the State of Colorado authority, agency or any political subdivision. Taxes shall not include any income, capital stock, succession, transfer, franchise, gift, estate, or inheritance taxes.

d. Assessment Contest. Landlord may and, at Tenant's request, Landlord shall, contest in good faith by appropriate proceedings, or in any other manner permitted by law, at Landlord's expense (or at Tenant's expense if Tenant requests such contest), in Landlord's name, any Taxes assessed or levied against the Property and the Improvements. Tenant agrees to cooperate with Landlord and to execute any documents reasonably required for such purpose. The contest shall include appeals from any judgments, decrees or orders until a final determination shall be made by a court or governmental department or authority having final jurisdiction in the matter. Notwithstanding such contests, Tenant shall pay the Taxes in a timely fashion pursuant to all rules and regulations of the applicable governmental taxing authority and mortgage documents affecting the Premises. Upon the final determination of any contest, Tenant shall pay to the appropriate authority any unpaid Taxes together with any fines, interest, penalties, costs and charges as may, in accordance with such determination, be payable. Any tax refund obtained or increased tax liability

incurred as a result of such contest together with any related interest or penalties earned or incurred shall be refunded to or paid by the Tenant as applicable to all periods during which Tenant leased the Premises.

5.3 Operating Costs.

a. Inclusion in Operating Costs. Tenant shall directly pay the Operating Costs for the Premises. Except as otherwise specifically provided for in this Lease, the term "Operating Costs" means any and all expenses, costs, and disbursements (other than Taxes) of every kind and nature whatsoever, which are required to operate, repair, maintain, replace and rebuild the Premises in a first-class condition subject to reasonable wear, including, without limitation, the following costs but excluding the costs of Landlord's warranty work described in Section 3.5:

i. Costs of supplies used by Tenant;

ii. Costs incurred in connection with obtaining and providing energy for the Improvements, including, but not limited to, costs of propane, butane, natural gas, steam, electricity, fuel oils, coal or any other energy sources;

iii. Costs of water and sanitary and storm drainage services;

iv. Costs of janitorial and security services, if used by Tenant;

v. Costs of general maintenance, repairs and replacements to the Premises, including costs of maintaining, repairing and replacing heating, ventilation and air conditioning systems and the cost of maintaining, repairing and replacing the roof or the parking lot;

vi. Costs of insurance;

vii. Costs of maintenance and replacement of landscaping;

viii. Costs associated with operation and maintenance of the Improvements;

ix. Costs of repairs or reconstruction to the foundation, exterior concrete wall, roof superstructure and any other structural elements ("Structural Elements");

x. Costs of repairs, rebuilding, or other work necessitated by fire, windstorm or other casualty;

xi. Costs of repairs or rebuilding or other work necessitated by condemnation;

xii. The costs during the Lease Term of capital improvements and structural repairs and replacements made in, on or to the Premises in order to conform to changes subsequent to the Commencement Date in any applicable laws,

ordinances, rules,

regulations or orders of any governmental or quasi-governmental authority having jurisdiction over the Premises.

b. Exclusion Costs from Operating Costs. Operating Costs shall exclude any costs not required for the operation, repair, maintenance, replacement and rebuilding of the Premises, including without limitation:

i. depreciation;

ii. financing costs, including payments on debt (principal or interest);

iii. leasing commissions;

iv. costs incurred to perform or correct the Landlord's warranties as set forth in this Lease;

v. costs associated with the operation of the business of the legal entity which constitutes Landlord as the same is separate and apart from the costs of operation of the Premises, including legal entity formation and internal entity accounting;

vi. any late fees or penalties or similar fees incurred by Landlord, except to the extent attributable to Tenant's late payment or non-payment of Rent.

c. Warranties. Landlord agrees that any contract for construction of the Improvements with The Neenan Company shall contain the standard AIA document A201 -1987, Section 3.5.1. and Section 12.2.2., plus the additional language set forth in Exhibit D which is attached to and incorporated in this Lease ("Construction Contract Warranties"). Landlord shall assign to Tenant at the Commencement Date all of its rights to the Construction Contract Warranties and any supplier or manufacturer equipment warranties.

5.4 Operating Information. Landlord may request up to one time per year that Tenant provide Landlord with information regarding payments made during the past two (2) years for taxes, utilities, repairs and maintenance related to the Premises, which information Tenant agrees to supply within thirty (30) days of Landlord's request.

SECTION 6

HOLDING OVER

Should Tenant hold over after the Termination Date, Tenant shall become a tenant from month-to-month upon each and all of the terms herein provided as may be applicable to such a tenancy, and any such tenancy shall not constitute an extension of this Lease. During such period Tenant shall be considered to be in default under this Lease and Landlord may elect to charge Tenant Landlord's damages, consequential as well as direct, sustained by it by reason of Tenant's occupying the Premises past the expiration of the Lease

Term including Rent at the rate payable for the month immediately preceding the date of expiration of the Lease Term. Tenant shall defend, indemnify and hold Landlord harmless from and against any and all claims, losses and liabilities for damages resulting from failure to surrender possession upon the Termination Date or sooner termination of the Term, including, without limitation, any claims made by any succeeding tenant, and such obligations shall survive the expiration or sooner termination of this Lease. All rights provided for in Sections 27-30 shall be deemed terminated and be of no further effect during said month to month tenancy. The provisions of this paragraph shall not exclude nor waive Landlord's right of re-entry or any other right hereunder.

SECTION 7

BUILDING SERVICES

Tenant shall directly contract with and be solely responsible for providing any necessary utility or service required for Tenant's use of the Premises. Tenant agrees that Landlord shall not be liable for the unavailability of any heating, air conditioning, electric current, or any other utility or service. If such services are not available, Landlord shall not be liable for damages to persons or property for any discontinuance, nor shall a

discontinuance in any way be construed as a constructive or actual eviction of Tenant or cause an abatement of rent or operate to release Tenant from any of Tenant's obligations.

SECTION 8

USE OF LEASED PREMISES

8.1 Use. The Leased Premises shall not be used other than for the purpose set forth in Section 1 of this Lease.

8.2 Hazardous Use. Tenant agrees that it will not keep, use, sell, or offer for sale in or upon the Leased Premises any article which may be prohibited by any insurance policy in effect from time to time covering the Improvements or any hazardous substance, the handling or storage of which is subject to governmental regulations, unless Tenant complies with all such applicable regulations and provides Landlord, as reasonably requested by Landlord from time to time, with documents evidencing such compliance, to the extent that such documents are required to be prepared for and provided to governmental agencies or are otherwise prepared by Tenant independent of Landlord's request. Tenant shall promptly comply with all reasonable requirements of the insurance authority or of any insurer now or hereafter in effect relating to the Leased Premises.

8.3 No Waste. Tenant shall not commit, suffer, nor permit any waste, damage, disfiguration, or injury to the Leased Premises or the fixtures and equipment located in or on the Premises, or permit or suffer any overloading of the floors and shall not place any safes, heavy business machinery, or other heavy things in the Improvements other than as

specifically provided for in the Final Plans, without first obtaining the written consent of Landlord and, if required by Landlord, of Landlord's architect, and shall not use or permit to be used by any part of the Leased Premises for any noxious, or offensive trade or business, and shall not cause or permit any nuisance in, at, or on the Leased Premises other than those activities required in connection with the routine operation and maintenance of Tenant's business in the Premises and conducted in compliance with all applicable Environmental Laws and Environmental Permits.

8.4 Protection Against Insurance Cancellation. If any insurance policy required to be carried pursuant to this Lease or any part thereof shall be cancelled or if cancellation shall be threatened, or if the coverage shall be reduced or be threatened to be reduced, in any way by reason of the use or occupation of the Leased Premises or any part thereof by Tenant, any assignee or subtenant of Tenant, or by anyone permitted by Tenant to be upon the Leased Premises, and, if Tenant fails to take reasonable efforts to remedy the condition giving rise to the cancellation, threatened cancellation, reduction, or threatened reduction of coverage following Tenant's receipt of written notice or to diligently prosecute such remedial action to completion within a reasonable time following Tenant's receipt of such written notice, Landlord may, at its option, enter upon the Leased Premises and attempt to remedy the condition, and Tenant shall forthwith pay the cost to Landlord as additional Rent. Except for Landlord's negligence, Landlord shall not be liable for any damage or injury caused to any property of Tenant or of others located on the Leased Premises as a result of such entry. If Landlord is unable to remedy the offensive conditions, the Landlord shall have all of the remedies provided for in this Lease in the event of a default by Tenant. Notwithstanding the foregoing provisions of this Section 8.4, if Tenant fails to remedy the condition, Tenant shall be in default and Landlord shall have no obligations to attempt to remedy.

SECTION 9

COMPLIANCE WITH LAW

9.1 Compliance. Landlord warrants to Tenant that on the Commencement Date the Premises, as constructed by Landlord, comply with all laws, statutes, ordinances, regulations or restrictive covenants. Tenant shall not use the Premises, suffer the use of, or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance, governmental rule or regulation, or any applicable restrictive covenants now in force or which may hereafter be enacted or promulgated. Tenant shall, at its sole cost and expense, promptly comply with all laws, statutes, ordinances, restrictive covenants, and governmental rules, regulations, or requirements now in force or which may hereafter be in force, and with the requirements of any board of fire underwriters or other similar body now or hereafter constituted relating to or affecting the Premises provided nothing in this sentence shall preclude Tenant from making a claim against Landlord for breach of the warranty in this Section 9.1. The judgment of any court of competent jurisdiction or the admission of Tenant in an action against Tenant, whether Landlord be a party to

the action or not, that Tenant has violated any law, statute, ordinance, restrictive

covenant, or governmental rule, regulation, or requirement, shall be conclusive of that violation as between Landlord and Tenant.

9.2 Hazardous Materials.

a. During the term of this Lease, Tenant shall comply with all Environmental Laws and Environmental Permits (each as defined in Section 9.2(d) hereof) applicable to the operation or use of the Premises, shall cause all other persons occupying or using the Premises to comply with all such Environmental Laws and Environmental Permits, shall immediately pay all costs and expenses incurred by reason of such compliance, and shall obtain and renew all Environmental Permits required for operation or use of the Premises. Tenant shall not generate, use, treat, store, handle, release or dispose of, or permit the generation, use, treatment, storage, handling, release or disposal, of Hazardous Materials (as defined in Section 9.2(d) hereof) on the Premises, or transport or permit the transportation of Hazardous Materials to or from the Premises, except as required in connection with the routine operation and maintenance of Tenant's business in the Premises, and then only in compliance with all applicable Environmental Laws and Environmental Permits.

b.(1) Tenant will advise Landlord in writing not later than five (5) business days after Tenant has knowledge of any of the following: (1) any pending or threatened Environmental Claim (as defined in Section 9.2(d) hereof) against Tenant relating to the Premises; (2) any condition or occurrence on the Premises, of which Tenant has knowledge that results in noncompliance by Tenant with any applicable Environmental Law; and (3) the actual or anticipated taking of any removal or remedial action in response to the actual or alleged presence of any Hazardous Material on the Premises. All such notices shall describe in reasonable detail the nature of the claim, investigation, condition, occurrence or removal or remedial action and Tenant's response thereto. In addition, Tenant will provide Landlord with copies of all written communications regarding the Premises with any government or governmental agency relating to actual or possible non-compliance with Environmental Laws, all such communications with any person relating to Environmental Claims, and such detailed reports of any such Environmental Claim as may reasonably be requested by Landlord. At any time and from time to time during the term of this Lease, Landlord or its agents may perform an environmental inspection of the Premises, and Tenant hereby grants to Landlord and its agents access to the Premises to undertake such an inspection upon reasonable notice during Tenant's normal business hours and in a manner to minimize interference with Tenant's business.

b.(2) Landlord will advise Tenant in writing not later than five (5) business days after Landlord has knowledge of any pending or threatened Environmental Claim (as defined in Section 9.2(d) hereof) against Landlord and/or Tenant relating to the Premises. All such notices shall describe in reasonable detail the nature of the claim. In addition, Landlord will provide to Tenant all communications with any person relating to Environmental Claims and such detailed reports in Landlord's possession relating to any such Environmental Claim as may reasonably be requested by Tenant.

c. Tenant agrees to defend, indemnify and hold harmless the Landlord, its officers, managers, owners, lenders, employees, attorneys and agents ("Indemnitees") from and against all obligations (including removal and remedial actions), losses, claims, suits, judgments, liabilities, penalties (including, by way of illustration and not by way of limitation, civil fines), damages (including consequential and punitive damages), costs and expenses (including attorneys' and consultants' fees and expenses) of any kind or nature whatsoever that may at any time be incurred by, imposed on or asserted against such Indemnitees directly or indirectly based on, or arising or resulting from (a) the actual or alleged presence of Hazardous Materials on the Premises, which is caused or permitted by Tenant and/or (b) any Environmental Claim relating in any way to Tenant's operation or use of the Premises. The provisions of this Section 9.2(c) shall survive the expiration or sooner termination of this Lease.

d. (1) "Hazardous Materials" means (a) petroleum or petroleum products, natural or synthetic gas, asbestos in any form, urea formaldehyde foam insulation, and radon gas; (b) any substances defined now or in the future as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants," "contaminants" or "pollutants," or words of similar import, under any applicable Environmental Law; and (c) any other substance exposure to which is regulated by any governmental authority; (2) "Environmental Law" means any federal, state or local statute, law, rule,

regulation, ordinance, code, policy or rule of common law now or hereafter in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the environment, health, safety or Hazardous Materials; (3) "Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of non-compliance or violation, investigations, proceedings, consent orders or consent agreements relating in any way to any Environmental Law or any Environmental Permit, including without limitation (a) any and all Environmental Claims by governmental or regulatory authorities for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law and/or (b) any and all Environmental Claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment; and (4) "Environmental Permits" means all permits, approvals, identification numbers, licenses and other authorizations required under any applicable Environmental Law.

SECTION 10

MAINTENANCE, ALTERATIONS AND REPAIRS

10.1 Tenant to Maintain. Subject to Section 3.5, Tenant shall, at its sole expense, during the Lease Term maintain, repair, replace and rebuild the Premises, including the Structural Elements, as necessary to keep the Premises in good order, condition, and repair, fully operational, and clean and attractive in appearance, all consistent with a first-class building of similar use in Boulder County, Colorado. Without limiting the generality of the

foregoing, the Tenant will maintain, repair, replace, and rebuild the roof, windows, parking and driveway surfaces, sidewalks, landscaping, plumbing, heating, ventilating, and air-conditioning units, and other mechanical and electrical, systems on, or constituting a part of, the Premises. Any system or portion of the Premises that has a warranty shall be maintained in such a manner as to not void any such warranty and allow Landlord, upon termination of this Lease, to obtain a maintenance contract on the system without incurring extra charges.

10.2 Alterations. Tenant shall not, without the prior written consent of Landlord which shall not be unreasonably withheld so long as Tenant demonstrates financial assurance of its ability to restore the Premises to original condition, make any alterations, improvements, or additions to the Premises, including, but not limited to, partitions, wall coverings, floor coverings, special lighting or equipment installations and structural changes (collectively the "Alterations"). Notwithstanding anything else in this Section 10.2, Tenant may make non-structural changes to the Premises (including roof penetrations) the cost of which is less than \$50,000 per project without Landlord's consent provided Tenant gives Landlord a copy of as-built plans within thirty (30) days after completion. If Tenant desires to make any Alterations, the cost of which exceeds \$50,000, Tenant shall first submit to Landlord plans and specifications and obtain Landlord's written approval, if required, prior to commencing any work. All Alterations, whether temporary or permanent in character, made by Landlord or Tenant in or upon the Premises shall become Landlord's property and shall remain upon the Premises at the termination of this Lease by lapse of time or otherwise, without compensation to Tenant (excepting only Tenant's movable office furniture, inventory, trade fixtures, and office and professional equipment). If Landlord's consent is required to the Alterations, Landlord may require Tenant to remove the Alterations at Tenant's cost upon the termination of this Lease, and repair any damage caused to the Premises as a result of any removal shall be paid for by Tenant; provided that Landlord has given Tenant notice of its intent to require Tenant to remove and restore any Alterations within seven (7) days of Landlord's receipt of the plans and specifications. Tenant shall promptly pay, when due, all costs of all Alterations, and upon completion, deliver to Landlord, evidence of payment and waivers of all liens for labor, services, or materials. Tenant shall defend and hold Landlord and the Premises harmless from all costs, including reasonable attorney fees, damages, liens, claims of liens for labor, services, or materials relating to the work. Tenant shall immediately give Landlord notice of any mechanics liens or foreclosure proceedings and Landlord shall be allowed, at its option, to participate in the defense of or otherwise defend any such claim at the expense of Tenant. At Landlord's request, Tenant shall bond over any contested mechanics liens at Tenant's expense. If Landlord incurs any expenses in the removal of trash or cleaning as a result of Tenant's contractors' work then Tenant agrees it shall reimburse Landlord within seven (7) days of billing. In any event, upon termination of this Lease, Tenant shall not be obligated to remove any item or work attached to the Building as of the Commencement Date.

10.3 Protection Against Liens. At least five (5) days prior to the commencement of any work the cost of which is in excess of \$50,000 on the Leased

Premises, Tenant shall notify Landlord of the commencement of the work and Tenant shall post a written or printed notice on the Premises that Landlord's interest shall not be subject to any liens pursuant to Section 38- 22-105(2) of the Colorado Revised Statutes. During the progress

of any work on the Leased Premises, Landlord or its representatives shall have the right to go upon and inspect the Leased Premises at all reasonable times, and shall have the right to post and keep posted thereon notices such as those provided for by Section 38-22-105(2) of the Colorado Revised Statutes or to take any further action which Landlord may deem to be proper for the protection of Landlord's interest in the Leased Premises.

10.4 Surrender of Premises. Upon the expiration of the Lease Term or any sooner termination of this Lease, Tenant will surrender and deliver the Premises to Landlord, in good order, condition, and repair, subject only to ordinary wear and tear and to damage by fire or other casualty if and to the extent that Landlord is reimbursed by insurance proceeds for the full amount of such damage. The foregoing will not diminish, or be deemed to diminish, the obligations of Tenant to maintain, repair and replace the Premises in accordance with the other provisions of this Lease. Further, upon such expiration or termination, Tenant will remove all of Tenant's property from the Premises, except as is provided in Section 10.2. The provisions of this Section will survive the expiration of the Lease Term or any termination of this Lease.

SECTION 11

ABANDONMENT

Tenant shall not abandon the Premises at any time during the Lease Term and, if Tenant shall abandon or surrender (whether at the end of the stated Term or otherwise) the Premises, or shall be dispossessed by process of law or otherwise, then any personal property belonging to Tenant left on the Premises shall be deemed abandoned and may be sold or otherwise disposed of by Landlord without any liability to Tenant whatsoever. Tenant shall not at any time remove Landlord's property or any fixtures constituting property of Landlord from the Premises. Any removal of Landlord's property from the Premises by Tenant shall constitute a material breach of this Lease and Landlord shall have the right to take all reasonable steps to stop or prevent such breach without such actions constituting a constructive eviction of Tenant.

SECTION 12

ASSIGNMENT AND SUBLETTING

12.1 Landlord's Consent Required. Tenant shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Tenant's interest in the Lease or in the Premises, without Landlord's prior written consent, which Landlord shall not unreasonably withhold. In no event shall Landlord be required to approve any transfer to a prospective tenant who fails to meet the use restrictions set forth in Section 1.1. Landlord shall respond to Tenant's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a material default and breach of this Lease without the need for notice to Tenant under any provision of this Lease. "Transfer"

within the meaning of this Section 12.1 shall include any merger, reorganization, or similar transaction to which the Tenant's consent is required, or the sale or transfer of all or substantially all of Tenant's assets. Notwithstanding the above, Tenant may assign all of its rights, (but not less than all of its rights) to any entity which is at least 51% owned by Tenant or a parent of Tenant or in connection with any merger or reorganization of Tenant or a sale of all of Tenant's assets provided that Landlord receives notice of the transaction and sufficient financial information evidencing that the parties remaining liable on the Lease have the financial strength and credit rating at least equal to Tenant's as of the date this Lease is executed or the date of assignment, whichever is greater.

12.2 Terms and Conditions - Assignment and Subletting.

a. Regardless of Landlord's consent, no assignment or subletting shall release Tenant of Tenant's obligations hereunder or alter the primary liability of Tenant to pay Rent and other sums due Landlord hereunder including Taxes and Operating Costs, and to perform all other obligations to be performed by Tenant under this Lease.

b. Landlord may accept Rent from any person other than Tenant pending approval or disapproval of such assignment.

c. Neither a delay in the approval or disapproval of such assignment or subletting, nor the acceptance of Rent, shall constitute a waiver or estoppel of Landlord's right to exercise its remedies for the breach of any of the terms or conditions of this Section 12 of this Lease.

d. The consent by Landlord to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Tenant or to any subsequent or successive assignment or subletting by the subtenant. However, Landlord may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Tenant or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability under this Lease or said sublease; however, such persons shall not be responsible to the extent any such amendment or modification enlarges or increases the obligations of the Tenant or subtenant under this Lease or such sublease.

e. Upon any default under this Lease, Landlord may proceed directly against Tenant, any guarantors or any one else responsible for the performance of this Lease, including the subtenant, without first exhausting Landlord's remedies against any other person or entity responsible to Landlord, or any security held by Landlord or Tenant.

f. Landlord's written consent to any assignment or subletting of the Premises by Tenant shall not constitute any acknowledgement that no default then exists under this Lease of the obligations to be performed by Tenant nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Landlord writing at the time.

g. The discovery of the fact that any financial statement relied upon by Landlord in giving its consent to an assignment or subletting was materially false shall, at Landlord's election, render Landlord's consent null and void.

h. No consent by Landlord to an assignment of this Lease shall be effective unless and until Tenant shall deliver to Landlord an agreement in form and substance reasonably satisfactory to Landlord pursuant to which such assignee assumes and agrees to be bound by all of the terms, covenants, conditions, provisions and agreements of this Lease.

12.3 Additional Terms and Conditions - Subletting. Regardless of Landlord's consent, the following terms and conditions shall apply to any subletting by Tenant of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

a. Landlord shall not by reason of any assignment of such sublease to Landlord nor by reason of the collection of the rents from a subtenant, be deemed liable to the subtenant for any failure of tenant to perform and comply with any of Tenant's obligations to such subtenant under such sublease. Tenant hereby irrevocably authorized and directs any such subtenant, upon receipt of a written notice from Landlord stating that a default exists in the performance of Tenant's obligations under this Lease, to pay to Landlord the rents due and to become due under the sublease. Tenant agrees that such subtenant shall have the right to rely upon any such statement and request from Landlord, and that such subtenant shall pay such rents to Landlord without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Tenant to the contrary. Tenant shall have no right or claim against said subtenant or Landlord for any such rents so paid by said subtenant to Landlord.

b. No sublease entered into by Tenant shall be effective unless and until it has been approved in writing by Landlord. In entering into any sublease, Tenant shall use only such form of sublease as is reasonably satisfactory to Landlord, and once approved by Landlord, such sublease shall not be changed or modified without Landlord's prior written consent. Any subtenant shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Landlord, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Tenant other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Landlord has expressly consented in writing.

c. If Tenant shall default in the performance of its obligations under this Lease and Landlord terminates this Lease, Landlord at its option and without any obligation to do so, may require any subtenant to attorn to Landlord, in which event Landlord shall undertake the obligations of Tenant under such sublease from the time of the exercise of said option to the

termination of such sublease; provided, however, Landlord shall not be liable for any prepaid rents or security deposit paid by such subtenant to Tenant or for any other prior defaults of Tenant under the sublease.

d.No subtenant shall further assign or sublet all or any part of the Premises without Landlord's prior written consent.

12.4 Landlord's Expenses. If Tenant shall assign or sublet the Premises or request the consent of Landlord to any assignment or subletting or if Tenant shall request the consent of Landlord for any act Tenant proposes to do then Tenant shall pay Landlord's reasonable costs and expenses incurred in connection therewith, including attorneys, architects', engineers' or other consultants' fees. In addition, Tenant shall pay to Landlord, as Rent, all reasonable additional direct expenses incurred by Landlord due to any such assignee or sublessee taking possession of the Premises.

12.5 Acceptance of Performance; No Waiver. If this Lease is assigned, or if the Premises or any part are sublet or occupied by anybody other than Tenant, Landlord may, upon default by Tenant, collect the rent from the assignee, subtenant, or occupant and apply the net amount collected to the Rent, but no assignment, subletting, occupancy or collection shall be deemed an acceptance of the assignee, subtenant or occupant as the Tenant, or constitute a release of Tenant from further performance by Tenant of covenants on the part of Tenant.

SECTION 13

DAMAGE TO PROPERTY, INJURY TO PERSONS

13.1 Tenant's Waiver of Claims. Tenant, as a material part of the consideration to be rendered to Landlord under this Lease, to the extent permitted by law, hereby waives all claims which Tenant, Tenant's successor, or assigns may have against Landlord, its officers, directors, owners, employees, attorneys, and agents (excluding contractors and subcontractors) (collectively the "Released Parties") resulting from fire, explosion, falling plaster, smoke, steam, gas, electricity, water or rain which may leak from any part of the Improvements or from the pipes, appliances or plumbing works therein or from the roof, street or subsurface or from any other places resulting from dampness or any other cause whatsoever, except personal injury or loss or damage to property caused by or due to the negligence or willful misconduct of Landlord or breach of Landlord's warranties set forth in Section 3.5. In addition and subject to the exceptions of the preceding sentence, the Released Parties shall not be liable for (i) interference with the utility service, HVAC, or for any latent defect in the Improvements, except as provided in Section 3.5, (ii) any loss or damage for which Tenant is required to insure or (iii) any loss or damage resulting from any construction, Alterations or repair required or permitted to be performed by Tenant under this Lease. The foregoing to the contrary notwithstanding, nothing in this Section modifies the indemnities by the Landlord in this Lease including, but not limited to, Section 13.3(b).

13.2 Tenant's Obligations. Notwithstanding any other provision in this Lease to the contrary, if Tenant has a contractual obligation under this Lease and Tenant's failure to perform such obligation would also give rise to negligence by Landlord, then Landlord's negligence shall not be considered in applying any provisions of this Lease. By way of example only, without limiting the foregoing, if Landlord had a statutory duty or a common

law duty to remove ice and snow from any sidewalks on the Premises and Tenant had a simultaneous contractual obligation under this Lease to maintain the Premises in compliance with all governmental laws, rules and regulations and/or maintain the Premises in good condition, Tenant would nevertheless be required to indemnify Landlord pursuant to this Section 13.2 from the claim of any person who slipped on the icy sidewalk even though Landlord may legally be considered negligent.

13.3 Indemnification.

a. Tenant's Indemnification. Tenant shall indemnify, defend and hold harmless Landlord and its officers, directors, owners, employees, attorneys and agents (collectively, the "Landlord Indemnitees") from and against any and all claims, demands, causes of action, judgments, costs, expenses, and all losses and damages (including consequential and punitive damages) arising from Tenant's use of the Premises or from the conduct of its business or from any activity, work, or other acts or things done, permitted or suffered by Tenant in or about the Premises, and shall further indemnify, defend and hold

harmless the Landlord Indemnitees from and against any and all claims arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act, omission or negligence or willful or criminal misconduct of Tenant, or any officer, agent, employee, independent contractor, guest, or invitee thereof, and from all costs, reasonable attorneys' fees and disbursements, and liabilities incurred in the defense of any such claim or any action or proceeding which may be brought against, out of or in any way related to this Lease. Tenant's indemnity obligations set forth in this Section 13.3(a) shall not operate or apply to any such claim(s) arising from Landlord's negligence or willful misconduct. Upon notice from Landlord, Tenant shall defend any such claim, demand, cause of action or suit at Tenant's expense by counsel satisfactory to Landlord in its sole discretion. As a material part of the consideration to Landlord for this Lease, Tenant hereby assumes all risk of damage to property or injury to persons in, upon or about the Premises from any cause, and Tenant hereby waives all claims with respect thereto against the Indemnitees, except to the extent Landlord is obligated to indemnify Tenant pursuant to Section 13.3(b). Tenant shall give immediate notice to Landlord in case of casualty or accidents in the Premises. The provisions of this Section 13.3(a) shall survive the expiration or sooner termination of this Lease.

b. Landlord's Indemnification. Landlord shall indemnify, defend and hold harmless Tenant and its officers, directors, owners, employees, attorneys and agents (collectively the "Tenant Indemnitees") from and against any and all claims, demands, causes of action, judgments, costs, expenses, and all losses and damages (including consequential and punitive damages) arising from any breach or default of performance of any obligation on Landlord's part to be performed under the terms of this Lease, or arising from any negligence or willful or criminal misconduct of Landlord, or any officer, agent, employee, independent contractor, guest or invitee thereof, and from all costs, reasonable attorneys fees and disbursements, and liabilities incurred in the defense of any such claim or action or proceeding which may be brought against, out of, or in any way related to this Lease. Upon notice from Tenant, Landlord shall defend any such claim, demand, cause of action or suit at Landlord's expense by counsel satisfactory to Tenant in its sole discretion. The

provisions of this Section 13.3(b) shall survive the expiration or sooner termination of this Lease. Landlord's indemnity obligations set forth in this Section 13.3(b) shall not operate or apply to any such claim(s) arising from Tenant's breach of this Lease or Tenant's negligence or willful misconduct.

13.4 Negligence of Third Parties. The Landlord Indemnitees shall not be liable to Tenant for any damage by or from any act or negligence of any third party owner or occupant of adjoining or contiguous property or any other third party.

13.5 Tenant's Property. All property belonging to Tenant, or any occupant of the Premises, that is on the Premises, shall be there at the sole risk of Tenant or other person only, and the Landlord Indemnitees (except in the case of the negligence or willful misconduct of Landlord or its agents or employees or breach of the warranties set forth in Sections 3.5 and 10.1) shall not be liable for, without limitation: (i) damage to or theft of or misappropriation of such property; (ii) any damage to property entrusted to Landlord, its agents, or employees, if any; (iii) loss of or damage to any property by theft or otherwise, by any means whatsoever; (iv) any injury or damage to persons or property resulting from any condition on the Premises including, but not limited to, fire, explosion, smoke, falling plaster, steam, gas, electricity, snow, water, or rain which may leak from any part of the Improvements or from the pipes, appliances, or plumbing works therein or from the roof, street, subsurface, or from any other place, or resulting from dampness or any other cause whatsoever; or (v) interference with the light, air or other incorporeal hereditament. Tenant shall give prompt notice to Landlord in case of fire or accidents in the Premises or in the Improvements or of observed defects in the Improvements, its fixtures or equipment.

13.6 Third-Party Suits. If any action or proceeding is brought against Landlord by reason of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act or negligence of Tenant, its agents, or employees, then Tenant, upon notice from Landlord, shall defend the same at Tenant's expense. If any action or proceeding is brought against Tenant by reason of any obligation on Landlord's part to be performed under the terms of this Lease, or arising from any act or negligence of Landlord, its agents, or employees, then Landlord, upon notice from Tenant, shall defend the same at Landlord's expense.

SECTION 14

INSURANCE

14.1 Insurance. Tenant shall, during the entire Term of this Lease, at

its sole cost and expense, obtain, maintain, and keep in full force and effect the following types of insurance:

a. Fire and extended coverage insurance covering Tenant's personal property, fixtures, improvements, wall coverings, floor coverings, window coverings, alterations, furniture, equipment, lighting, ceilings, heating, ventilation and air conditioning equipment, interior plumbing and plate glass and other property against loss or damage by

fire, flood, windstorms, hail, earthquakes, explosion, riot, damage from aircraft and vehicles, smoke damage, vandalism and malicious mischief and such other risks as are from time to time covered under "extended coverage" endorsements and special extended coverage endorsements commonly known as "all risks" endorsements, in an amount equal to the greater of the full replacement value or the amount required by the holder of any mortgage from time to time and containing the waiver of subrogation required in Section 16 of this Lease. Such policy shall name Landlord as an additional insured as Landlord's interest may appear and Landlord's mortgagee under a standard mortgagee policy to the extent of their respective interests. In addition, Landlord shall obtain, at Tenant's expense, its own policy insuring Landlord's liability for damage to Tenant's property in an amount of \$5,000,000.

b. All risk coverage covering all of the Improvements on the Premises in an amount equal to the full replacement value without deduction for depreciation, (including, without limitation, with respect to the roofs) as determined by Landlord from time to time. Landlord and Tenant shall be named joint loss payees on this policy and Landlord's mortgagee shall be the sole named mortgagee under a standard mortgagee's clause. Any of Landlord's mortgagees shall agree to make the proceeds of such insurance available to Tenant for the purpose of repairing and restoring the Improvements provided that the loan is not in default and that Tenant is not in default under this Lease. In addition, Landlord may obtain at Tenant's expense its own policy insuring Landlord's liability for damage to the Improvements.

c. Comprehensive General Liability Insurance with contractual liability endorsement utilizing an Insurance Services Office standard form providing coverage for bodily injury (including death), property damage and products liability insurance (where such exposure exists) occurring on the Premises. Such insurance shall have a combined single limit of not less than Six Million Dollars (\$6,000,000) per occurrence and Ten Million Dollars (\$10,000,000) in the aggregate for all occurrences within each policy year, or such greater amounts as Landlord may from time to time reasonably require naming Landlord, and its mortgagees with an insurable interest, as additional insureds. In addition, Landlord may obtain, at Tenant's expense, its own policy insuring Landlord against such risks.

d. State Worker's Compensation Insurance in the statutorily mandated limits and Employers Liability Insurance with limits of not less than Five Hundred Thousand Dollars (\$500,000), or such greater amount as Landlord may from time to time require.

e. Rent loss insurance in such amounts as will enable Tenant to keep and perform all the obligations under this Lease for a period of twelve (12) months.

f. Any other form or forms of insurance as Landlord or the mortgagees of Landlord may reasonably require from time to time in form, in amounts and for insurance risks against which a prudent tenant or landlord would protect itself in similar circumstances.

14.2 Policies. It is expressly understood and agreed that the foregoing minimum limits of insurance coverage shall not limit the liability of Tenant for its acts or omissions as provided in this Lease. All of the foregoing insurance policies (with the exception of Worker's Compensation Insurance to the extent not available under statutory law) shall

name Landlord, any holder of a mortgage, or any managing agent for the Premises and such other parties as Landlord shall from time to time designate as an additional insured as their respective interests may appear, and shall provide that any loss shall be payable to Landlord and any other additional insured parties as their respective interests may appear. All claims under policies carried by Tenant with respect to Section 14.1(a), (b) and (c) may be settled by Tenant subject to Landlord's consent which shall not be unreasonably withheld. All insurance required hereunder shall be placed with companies which are rated A-VIII or better by Best's Insurance Guide and licensed to do business in the state in which the Premises are located. All such policies shall be written as

primary policies not contributing with and not supplemental to the coverage that Landlord may carry, with deductibles not to exceed one percent (1%) of the amount of coverage. Tenant shall deliver certified copies of all such policies and all endorsements thereto, thirty (30) days prior to the Commencement Date, or earlier access to the Premises during construction or, in the case of renewals thereto, fifteen (15) days prior to the expiration of the prior insurance policy, together with evidence that such policies are fully paid for, and that no cancellation, material change or non-renewal thereof shall be effective except upon thirty (30) days' prior written notice from the insurer to Landlord. If Tenant shall fail at any time to procure and/or maintain the insurance required herein, Landlord may, at its option, procure such insurance on Tenant's behalf and the cost thereof shall be payable upon demand, as Rent. Payment by Landlord of any insurance premium or the carrying by Landlord of any such insurance policy shall not be deemed to waive or release the default of Tenant with respect thereto.

14.3 Protection Against Insurance Cancellation. If any insurance policy required under this Lease shall be cancelled or if cancellation shall be threatened, or if the coverage shall be reduced or be threatened to be reduced, in any way by reason of the use or occupation of the Premises or any part thereof by Tenant, any assignee or subtenant of Tenant, or by anyone permitted by Tenant to be upon the Premises, and if Tenant fails to take reasonable efforts to remedy the condition giving rise to the cancellation, threatened cancellation, reduction, or threatened reduction of coverage within forty-eight (48) hours after notice or to complete the remedy within the earlier of five (5) days after notice or cancellation of the policy, Landlord may, at its option, enter upon the Premises and attempt to remedy the condition, and Tenant shall forthwith pay the cost to Landlord as additional Rent. Landlord shall not be liable for any damage or injury caused to any property of Tenant or of other persons located on the Premises as a result of such entry. If Landlord is unable to remedy the offensive conditions if it chooses to attempt same, the Landlord shall have all of the remedies provided for in this Lease in the event of a default by Tenant. Notwithstanding the foregoing provisions of this Section 14.3, if Tenant fails to remedy the condition, Tenant shall be in default and Landlord shall have no obligations to attempt to remedy.

14.4 Blanket Insurance. Nothing in this Section 14 shall prevent Tenant from taking out insurance of the kind and in the amounts provided for under this Article under a blanket insurance policy or policies covering other properties as well as the Leased Premises, provided, however, that any such policy or policies of blanket insurance provide that the amount of the insurance available to pay claims as required under this Lease, independent of any events affecting other property or liability of Tenant, shall not be less than the amounts required by Section 14.1, and (ii) such amounts so specified shall be

sufficient to prevent any one of the assureds from becoming a co-insurer within the terms of the applicable policy or policies, and provided further, however, that any such policy or policies of blanket insurance shall, as to the Leased Premises, otherwise comply as to endorsements and coverage with the provisions of this Article. To the extent that Landlord is named as an additional insured under any blanket insurance policies, such policies shall insure losses incurred due to the acts or omissions of Landlord, excluding Landlord's intentional acts. Tenant hereby indemnifies and agrees to hold Landlord harmless from any loss that would be covered by such policies if the deductible amounts were zero.

SECTION 15

DAMAGE OR DESTRUCTION

Tenant shall notify the Landlord of the exact cause, nature, and extent of any damage for which Tenant may make an insurance claim or other material damage immediately upon the occurrence of such damage to any part of the Premises. Tenant shall further notify Landlord within thirty (30) days of the occurrence of such damage if it desires not to repair, replace or rebuild the Premises as necessary to restore the Premises to substantially the same condition that the Premises were in as of the Commencement Date based upon the original Final Plans as constructed, including any changes necessary to comply with the then current governmental laws, rules, ordinances, and regulations ("Original Condition"). Upon receipt of such notice, Landlord may elect to either terminate the Lease and retain all insurance proceeds or require Tenant to repair, replace or rebuild. Unless Landlord elects to terminate the Lease within forty-five (45) days of Landlord's receipt of Tenant's notice regarding the occurrence of damage, Tenant shall promptly repair, replace and rebuild the Premises to their Original Condition at Tenant's expense. If Tenant repairs, replaces or rebuilds the Premises, Tenant shall be entitled to the net insurance proceeds payable under the insurance carried pursuant to Section 14.1(b) with respect to such damage and Tenant shall pay any costs in excess of such net insurance proceeds which are incurred to restore the Premises to their Original Condition except that Tenant shall not pay to the extent that any such insurance proceeds are retained by Landlord's lender and applied to Landlord's loan. If

the Landlord elects to terminate the Lease Term, the Lease shall be deemed to have expired on the date of notice of loss, and all insurance proceeds, plus the amount of any deductible under the insurance policies, shall be paid to and retained by the Landlord. There shall be no abatement of Rent unless and to the extent that Landlord receives rent insurance proceeds from the insurance purchased by Tenant. In no event shall Landlord be required to make any repairs, replacements, or rebuild any portion of the Premises.

SECTION 16

WAIVER AND SUBROGATION

Landlord and Tenant agree that any and all insurance which is required to be carried under Section 14 shall be endorsed with a subrogation clause, substantially as follows: "This insurance shall not be invalidated should the insured waive, in writing, prior to a loss, any

and all right of recovery against any party for loss occurring to the property described herein." Each party waives all claims for recovery from the other party, its officers, agents or employees for any loss or damage (whether or not such loss or damage is caused by negligence of the other party, and notwithstanding any provisions contained in this Lease to the contrary) to any of its real or personal property insured under valid and collectible insurance policies to the extent of the collectible recovery under the insurance.

SECTION 17

ENTRY OF LANDLORD

Landlord, its agents, and its mortgagees, upon 24 hours advance notice (except in case of emergency), shall have the right to enter the Premises during normal business hours for the purpose of examining or inspecting the same and to show same to prospective mortgagees, purchasers or tenants of the Improvements, and to perform any obligations of Tenant if Tenant has failed to do so. Tenant will require that Landlord be escorted while on the Premises. Landlord shall use reasonable efforts on any such entry not to unreasonably interrupt or interfere with Tenant's use and occupancy of the Premises and shall not disclose any trade secrets or confidential information acquired by Landlord during such entry.

SECTION 18

DEFAULT BY TENANT

18.1 Events of Default. Each one of the following events is referred to as an "Event of Default":

a. Tenant shall fail to make due and punctual payment of Rent or any other amounts payable hereunder, and such failure shall continue for five (5) business days after written notice thereof is given by Landlord; provided, however, Tenant shall not be entitled to more than one (1) notice of a delinquency in payment during any calendar year and if thereafter during such calendar year any Rent or other amounts owing hereunder are not paid when due, a default shall be considered to have occurred even though no notice is given;

b. Tenant shall default in the performance of or compliance with any of the other covenants, agreements, terms or conditions of this Lease to be performed by Tenant (other than any default curable by the payment of money), and, unless expressly provided elsewhere in this Lease that no notice and/or opportunity to cure such default is to be afforded Tenant, such default shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant, or, in the case of a default which cannot with due diligence be cured within thirty (30) days, Tenant fails to commence such cure promptly within such thirty (30) day period and thereafter diligently prosecute such cure to

completion as promptly as possible. Notwithstanding the above, Tenant must immediately remedy any default that presently threatens an injury or harm to any person or property; or

c. Tenant shall become insolvent within the meaning of the United States Bankruptcy Code, as amended from time to time (the "Code"), or shall have ceased to pay its debts in the ordinary course of business, or shall be unable to pay its debts as they become due, or Tenant shall notify Landlord that it anticipates the occurrence of any of the foregoing conditions; or

d. Tenant shall file, take any action to file, or notify Landlord that Tenant intends to file, a petition, case or proceeding under any section or chapter of the Code, or under any similar law or statute of the United States or any state thereof relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts; or

e. Tenant shall be adjudicated as a bankrupt or insolvent or consent to, or file an answer admitting or failing reasonably to contest the material allegations of, a petition filed against it in any such case or proceeding in the preceding clause (d); or

f. Tenant shall seek to or consent to or acquiesce in the appointment of any receiver, trustee, liquidator or other custodian of Tenant or any material part of its or their properties, whether or not the same shall relate to their interests in this Lease; or

g. Tenant shall make a general assignment for the benefit of creditors; or take any other action for the purpose of effecting any of the foregoing clauses (c) through (f); or

h. if, within thirty (30) days after the filing of an involuntary petition in bankruptcy against Tenant or the commencement of any case or proceeding against Tenant seeking any reorganization, composition, arrangement, liquidation, dissolution, readjustment or similar relief under any law, such proceeding shall not have been dismissed; or if, within thirty (30) days after the appointment, without consent or acquiescence of Tenant, of any trustee, receiver or liquidator of Tenant, of all or any substantial part of the properties of Tenant, or of all or any part of the Premises, such appointment shall not have been vacated or stayed on appeal or otherwise; or if, within thirty (30) days after the expiration of any such stay, such appointment shall not have been vacated; or if, within thirty (30) days after the taking of possession without the consent or acquiescence of Tenant, by any governmental office or agency pursuant to statutory authority for the dissolution or liquidation of Tenant, such taking shall not have been vacated or stayed on appeal or otherwise; or

i. the Premises shall be effectively abandoned by Tenant; or

j. any execution or attachment is issued against Tenant or any of its property whereupon the Premises shall be taken or occupied or attached, or attempted to be taken or occupied or attached by someone other than Tenant; or

k. Tenant does or permits to be done anything which creates a lien upon the Premises or the Improvements and in any such event such lien is not discharged by Tenant within ten (10) days after receipt of notice of the filing thereof; or

l. this Lease shall be transferred to or shall pass to or devolve upon any other person or party except in the manner set forth in Section 12; or

m. Tenant shall fail to take possession of the Premises within thirty (30) days of the Substantial Completion Date.

18.2 Landlord's Remedies Upon Default.

a. Upon the occurrence of any Event of Default, Landlord shall have the option to pursue any one or more of the following remedies without notice or demand whatsoever, in addition to, or in lieu of, any and all remedies available to Landlord under the laws of the state in which the Improvements are located:

i. Landlord may give Tenant written notice of its election to terminate this Lease, effective on the date specified therein, whereupon Tenant's right to possession of the Premises shall cease and this Lease, except as to Tenant's liability determined in accordance with this Lease, shall be terminated.

ii. Landlord and its agents may immediately re-enter and take possession of the Premises, or any part thereof, either by summary proceedings, or by any other applicable action or proceeding, or by force or otherwise (without being liable for indictment, prosecution or damages therefor) and may repossess same as Landlord's former estate and expel Tenant and those claiming through or under Tenant, and remove the effects of both or either, without being deemed guilty in any manner of trespass, and without prejudice to any remedies for arrears of Rent or Tenant's breach of covenants or conditions.

iii. Should Landlord elect to re-enter as provided hereinabove or should Landlord take possession pursuant to legal proceedings or pursuant to any

notice provided by law, Landlord may, from time to time, without terminating this Lease, relet the Premises or any part thereof in Landlord's or Tenant's name, but for the account of Tenant, for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the Term) and on such terms and conditions (which may include concessions of free rent and alteration, repair and improvement of the Premises) as Landlord, in its sole discretion, may determine, and Landlord may collect and receive the rents therefor without relieving Tenant of any liability under this Lease or otherwise affecting any such liability. Landlord shall have no obligation to relet the Premises or any part thereof and shall in no event be liable for failure to relet the Premises or any part thereof, or, in the event of any such reletting, for refusal or failure to collect any rent due upon such reletting, and no such refusal or failure shall operate to relieve Tenant of any liability under this Lease or otherwise to affect any such liability. No such re-entry or taking possession of the Premises by Landlord shall be construed as an election on Landlord's part to terminate this Lease unless a written notice of such intention be given to Tenant. No notice from Landlord hereunder or under a forcible entry and detainer statute or similar law shall

constitute an election by Landlord to terminate this Lease unless such notice specifically so states. Landlord reserves the right following any such re-entry and/or reletting to exercise its right to terminate this Lease by giving Tenant written notice thereof, in which event this Lease will terminate as specified in said notice.

b. Tenant, on its own behalf and on behalf of all persons claiming through or under Tenant, including all creditors, does further hereby waive any and all rights which Tenant and all such persons might otherwise have under any present or future law to redeem the Premises, or to re-enter or repossess the Premises, or to restore the operation of this Lease following an Event of Default and, after (i) Tenant shall have been dispossessed by a judgment or by warrant of any court or judge, or (ii) any re-entry by Landlord, or (iii) any expiration or termination of this Lease and the Term, whether such dispossession, re-entry, expiration or termination shall be by operation of law or pursuant to the provisions of this Lease. The words "re-enter", "re-entry" and "re-entered" as used in this Lease shall not be deemed to be restricted to their technical legal meanings. In the event of a breach or threatened breach by Tenant, or any persons claiming through or under Tenant, of any term, covenant or condition of this Lease on Tenant's part to be observed or performed, Landlord shall have the right to enjoin such breach and the right to invoke any other remedy allowed by law or in equity as if re-entry, summary proceedings and other special remedies were not provided in this Lease for such breach.

c.i. If this Lease is terminated by Landlord upon an Event of Default, Tenant shall remain liable to Landlord for damages in an amount equal to the Base Rent and any other sums due hereunder ("Additional Rent") as of the date of termination of this Lease plus the Base Rent and any Additional Rent which would have been owing by Tenant for the balance of the Term (collectively, the "Aggregate Gross Rent") had this Lease not been terminated, less the net proceeds, if any, received as a result of any reletting of the Premises by Landlord subsequent to such termination, after deducting all of Landlord's expenses including, without limitation, all repossession costs, brokerage commissions, legal expenses, attorneys' fees, expenses of employees, alteration and repair costs and expenses of preparation for such reletting (collectively, the "Reletting Costs"). Landlord shall be entitled to collect Base Rent, any Additional Rent and all other damages from Tenant monthly on the days on which Base Rent and any Additional Rent would have been payable hereunder if this Lease had not been terminated. Alternatively, at the option of Landlord, in the event this Lease is so terminated, Landlord shall be entitled to recover forthwith against Tenant, as liquidated damages and not as a penalty, the then present value of the Aggregate Gross Rent and Reletting Costs less the aggregate rental value of the Premises for what otherwise would have been the unexpired balance of the Term. If Landlord relets the Premises, the amount of rent and other sums payable by the tenant thereunder shall be deemed prima facie to be the rental value for the Premises (or the portion thereof so relet) for the term of such reletting. Tenant shall in no event be entitled to any rents collected or payable in respect of any reletting, whether or not such rents shall exceed the Base Rent and any Additional Rent reserved in this Lease. Tenant shall bear the burden of proof in any proceeding to determine the "rental value" for purposes of the above calculation.

ii. If Landlord does not elect to terminate this Lease, but takes possession, Tenant shall pay to Landlord the Base Rent, Additional Rent and Reletting

Costs which would be payable hereunder if such repossession had not occurred,

less the proceeds received by Landlord, if any, of any reletting of the Premises by Landlord. Tenant shall pay Base Rent and all Additional Rent due to Landlord, monthly, on the days on which Base Rent would have been payable hereunder if possession had not been retaken.

d.i. This Lease shall continue in effect for so long as Landlord does not expressly terminate it, and Landlord may enforce all its rights and remedies under this Lease, including the right to recover the Base Rent and any Additional Rent, as the same become due under this Lease. Acts of maintenance or preservation or efforts to relet the Premises or the appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's rights to possession unless Landlord shall have specifically elected to terminate this Lease.

ii. No payments of money by Tenant to Landlord after the expiration or other termination of this Lease after the giving of any notice by Landlord to Tenant shall reinstate or extend the Term, or make ineffective any notice given to Tenant prior to the payment of such money. Landlord may receive and collect any sums due under this Lease, and the payment thereof shall not make ineffective any notice, or in any manner affect any pending suit or any judgment theretofore obtained.

e. Upon the occurrence of an Event of Default all rights of and/or option of first offer, refusal, purchase, expansion or extension granted to Tenant pursuant to Sections 27-30 shall terminate and Tenant shall execute a Quit Claim Deed of the Premises to Landlord transferring any and all of Tenant's right, title, and interest in and to the Premises.

18.3 Default by Landlord.

a. Before Commencement Date. If Landlord fails to Substantially Complete the Improvements within forty-five (45) days of August 15, 1996, plus any Tenant Delays or Force Majeure days, then Tenant's sole remedy shall be to exercise the Purchase Option set forth in Section 27 except that the Landlord's Work Costs shall only include those costs incurred or committed to by Landlord as of the date that Tenant elects to exercise its rights under this Section 18.3(a) except that incurred costs, to the extent evidenced by mechanics liens, should be withheld for payment to lien claimants directly. Upon Tenant's election to purchase the Premises in addition to Landlord's transfer of all its right, title and interest in and to the Premises, Landlord shall assign to Tenant all of its rights in any contracts related to the construction or completion of the Improvements.

b. After Commencement Date. Landlord shall not be in default after Commencement Date unless Landlord fails to perform its obligations within a reasonable time, but in no event later than thirty (30) days after written notice by Tenant to Landlord; provided that if the nature of Landlord's obligation is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such 30-day period and thereafter diligently prosecutes the same to completion provided further, and notwithstanding the foregoing, if Landlord's failure materially interferes with Tenant's ability to conduct its business operations in the Premises

or poses a material threat of injury to persons or damage to property, Landlord shall be in default unless it commences to cure promptly following notice of such fact and diligently prosecutes such cure to completion. If Landlord fails to perform its obligations pursuant to the warranties set forth in Section 3.5 according to the previous sentence, then Tenant may take such action as reasonably necessary to correct any defect covered by Landlord's warranties and Landlord shall pay Tenant the reasonable costs incurred by Tenant in performing such corrections within thirty (30) days of Tenant's invoice to Landlord. In any event Tenant shall give Landlord notice of its intention to exercise its rights to correct such defects prior to commencement of corrective action. In no event shall Tenant have the right to terminate this Lease as a result of Landlord's default and Tenant's remedies shall be limited to damages and/or injunction except in the event that Landlord is dispossessed of title to the Premises and Tenant's possession of the Premises is terminated notwithstanding that Tenant is not in default under this Lease.

c. Failure to Pay Secured Lender. Any borrowings by Landlord secured by the Premises shall provide Tenant with concurrent notice of and the right to cure any monetary default by Landlord under the loan provided Landlord is not currently contesting the alleged default and Tenant is not otherwise in default under this Lease. Tenant shall be entitled to an offset against the next Rent due to the extent of the amount paid by Tenant to Landlord's lender to cure Landlord's loan.

18.4 Cumulative Remedies. Suit or suits for the recovery of the Rent and other amounts and damages may be brought by Landlord, from time to time, at

Landlord's election, and nothing in this Lease shall be deemed to require Landlord to await the date when this Lease or its Term would have expired by limitation had there been no default by Tenant, or no termination, as the case may be. Each right and remedy provided for Landlord or Tenant in this Lease shall be cumulative and shall be in addition to every other right or remedy provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise including but not limited to suits for injunctive relief and specific performance. The exercise or beginning of the exercise by Landlord or Tenant of any one or more of the rights or remedies provided for in this Lease or now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by Landlord or Tenant of any or all other rights or remedies. All such rights and remedies shall be considered cumulative and non-exclusive. All costs incurred by Landlord in connection with collecting any Rent or other amounts and damages owing by Tenant pursuant to the provisions of this Lease, or to enforce any provision of this Lease, including reasonable attorneys' fees from the date such matter is turned over to an attorney, whether or not one or more actions are commenced by Landlord, shall also be paid by Tenant to Landlord. All costs incurred by Tenant to collect any amounts owing from Landlord to Tenant or to enforce any provision of this Lease, including reasonable attorneys' fees from the date such matter is turned over to an attorney, whether or not one or more actions are commenced by Tenant, shall be paid by Landlord to Tenant.

18.5 No Waiver. No failure by Landlord or Tenant to insist upon the strict performance of any agreement, term, covenant or condition of this Lease or to exercise any right or remedy consequent upon a breach, and no acceptance of full or partial payment of Rent by Landlord during the continuance of any breach, shall constitute a waiver of any

breach or of the agreement to be performed or complied with by Tenant or Landlord, and no breach shall be waived, altered or modified except by written instrument executed by Landlord or Tenant. No waiver of any breach shall affect or alter this Lease, but each and every agreement, term, covenant and condition shall continue in full force and effect with respect to any other then existing or subsequent breach. Notwithstanding any termination of this Lease, the same shall continue in force and effect as to any provisions which require observance or performance by Landlord or Tenant subsequent to such termination.

18.6 Bankruptcy.

a. Nothing contained in this Section 18 shall limit or prejudice the right of Landlord to prove and obtain as liquidated damages in any bankruptcy, insolvency, receivership, reorganization or dissolution proceeding, an amount equal to the maximum allowed by any statute or rule of law governing such a proceeding and in effect at the time when such damages are to be proved, whether or not the amount is greater, equal to or less than the amounts recoverable, either as damages or Rent, referred to in any of the preceding provisions of this Section.

b. Landlord and Tenant understand that, notwithstanding certain provisions to the contrary contained herein, a trustee or debtor in possession under the Code may have certain rights to assume or assign this Lease. Landlord and Tenant further understand that, in any event, Landlord is entitled under the Bankruptcy Code to adequate assurances of future performance of the terms and provisions of this Lease. The parties hereto agree that, with respect to any such assumption or assignment, the term "adequate assurance" shall include at least the following:

i. In order to assure Landlord that the proposed assignee will have the resources with which to pay all Base Rent and any Additional Rent payable pursuant to the terms hereof, any proposed assignee must have, as demonstrated to Landlord's satisfaction, a net worth (as defined in accordance with generally accepted accounting principles consistently applied) of not less than the net worth of Tenant on the date this Lease became effective, increased by seven percent (7%), compounded annually, for each year from the Commencement Date through the date of the proposed assignment. The financial condition and resources of Tenant were a material inducement to Landlord in entering into this Lease.

ii. Any proposed assignee must have been engaged in the conduct of business for the five (5) years prior to any such proposed assignment, which business does not violate the Permitted Uses, and such proposed assignee shall continue to engage in the Permitted Uses. Landlord's asset will be substantially impaired if the trustee in bankruptcy or any assignee of this Lease makes any use of the Premises other than the Permitted Uses.

iii. Any proposed assignee of this Lease must assume and agree to be personally bound by the terms, covenants and provisions of this Lease.

SECTION 19

PERSONAL PROPERTY TAXES

During the Term hereof, Tenant shall pay, prior to delinquency, all business and other taxes, charges, notes, duties and assessments levied, and rates or fees imposed, charged, or assessed against or in respect of Tenant's occupancy of the Leased Premises or in respect of the personal property, trade fixtures, furnishings, equipment, and all other personal property of Tenant contained in the Premises, and shall hold Landlord harmless from and against all payment of such taxes, charges, notes, duties, assessments, rates, and fees, and against all loss, costs, charges, penalties, interest, and expenses (including reasonable attorneys' fees) occasioned by or arising from any and all such taxes, charges, notes, duties, assessments, rates, and fees, and any and all taxes.

SECTION 20

EMINENT DOMAIN

20.1 Condemnation. If the Premises, or a substantial part thereof, the absence of which materially prevents Tenant's use of the Improvements, shall be lawfully taken or condemned (or conveyed under threat of such taking or condemnation) for any public or quasi-public use or purpose, this Lease shall terminate in its entirety upon, and not before, the date of the taking of possession by the condemning authority. If any part of the Premises which does not materially prevent Tenant's use of the Premises shall be so taken or condemned (or conveyed under threat of such taking or condemnation), this Lease shall not terminate, but shall continue in full force and effect as to the balance of the Premises then remaining, without abatement or reduction of Rent except to the extent the floor area of the Improvements is reduced. Tenant shall make such repairs and reconstruction as is necessary to return the Premises, as nearly as possible, to their condition prior to the taking or conveyance, such that Tenant may continue to use the Premises.

20.2 Award. The award, in respect of the condemnation of the Property, shall be allocated and disbursed as follows:

a. There shall first be allocated from the award the then fair market value of the Improvements. Landlord shall be entitled to an amount equal to the appraised fair market value of the Improvements paid for as Landlord's Work Costs pursuant to the provisions of Section 3 or Landlord's Work Costs ("Landlord's Share"), and the fair market value of the Improvements paid for as Tenant's Work Costs shall be allocated to Tenant ("Tenant's Share"). From Landlord's Share there shall be paid to Landlord's lender holding the lien of a deed of trust in the Premises such amount as is necessary to pay and discharge such indebtedness secured thereby, and any balance shall be paid to Landlord. In the event that Landlord's Share is insufficient to pay and discharge such indebtedness, there shall be disbursed to such lender from Tenant's Share so much thereof as may be necessary for such purpose (but not in excess of the maximum amount of Landlord's indebtedness permitted in Section 33).

b. Tenant shall have no further right or interest in the balance of the award, except that Tenant shall be entitled to so much of the award as represents severance damages for purposes of reimbursement to Tenant for any repair and restoration expenses incurred by Tenant pursuant to Section 20.2 above.

20.3 General. Except as otherwise set forth in Section 20.2 above, no money or other consideration shall be payable by Landlord to Tenant for the termination and, except as set forth above, Tenant shall have no right to share in any condemnation award, or in any judgment for damages, or in any proceeds of any sale made under any threat of condemnation or taking. Nothing in this Section shall prevent Tenant from making and pursuing a separate claim against the condemning authority in its own right, including a claim for the value of its personal property, equipment and fixtures, and relocation expenses, provided that such award does not diminish Landlord's award.

SECTION 21

SUBORDINATION TO MORTGAGES AND DEEDS OF TRUST

21.1 Lease Subordinate to Mortgages.

a. This Lease and the rights of Tenant shall be and are hereby

made subject and subordinate to the lien of any mortgages, deeds of trust, assignments of rents, and security interests now or hereafter existing against the Premises, and to all renewals, modifications, consolidations, replacements and extensions thereof and to all advances made now or in the future provided that so long as Tenant duly performs its obligations under this Lease, its quiet possession, use and enjoyment shall not be disturbed by the foreclosure or execution of any mortgages, deeds of trust or other grants of security or deed in lieu of foreclosure. Although the subordination shall be self-operating, Tenant, or its successors in interest, shall upon Landlord's request, execute and deliver any and all instruments reasonably desired by Landlord, subordinating, in the manner reasonably requested by Landlord, this Lease to any mortgage or deed of trust; provided that such mortgage or deed of trust holder concurrently executes and delivers to Tenant a reasonably and customary non-disturbance agreement. If Tenant unreasonably fails to execute such instruments within fifteen (15) business days of Landlord's delivery of such instruments to Tenant, then Tenant shall be deemed to be in default pursuant to this Lease and shall not be entitled to any opportunity to cure such default which may be provided for elsewhere in this Lease. If any mortgagee or trustee shall elect to have this Lease and any options granted hereby prior to the lien of its mortgage or deed of trust, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage or deed of trust, whether this Lease is dated prior or subsequent to the date of said mortgage or deed of trust or the date of recording thereof.

b. Should any mortgage or deed of trust affecting the Improvements, the Property or both be foreclosed, then: (i) the liability of the mortgagee, beneficiary or purchaser at the foreclosure sale to Tenant shall exist only so long as the mortgagee beneficiary, or purchaser is the owner of the Improvements and/or Property and the liability

shall not continue or survive after further transfer of ownership; and (ii) Tenant shall be deemed to have attorned, as Tenant under this Lease, to the purchaser at any foreclosure sale and this Lease shall continue in force and effect as a direct lease between and binding upon Tenant and the purchaser at any foreclosure sale. As used in this Section 21, "mortgagee" and "beneficiary" shall include successors and assigns of any such party, whether immediate or remote, the purchaser of any mortgage or deed of trust, whether at foreclosure or otherwise, and the successors, assigns and mortgagees and beneficiaries of such purchaser, whether immediate or remote.

21.2 Tenant's Notices. In the event of any act or omission by Landlord under this Lease which would cause Landlord to be in default or give Tenant the right to terminate this Lease or to claim a partial or total eviction, Tenant will not exercise any such right until:

a. it has given thirty (30) days written notice (by United States certified or registered mail, postage prepaid) of such act or omission to Landlord and to the holder of any mortgage or deed of trust on the Property (whose names and addresses Landlord agrees will be furnished to Tenant on request) with a copy to Peter Kloepfer, 1660 Lincoln Street, Suite 2900, Denver, Colorado 80264, or such other person as Landlord may designate, in writing, from time to time; and

b. any holder of any mortgage or deed of trust on the Property shall, following the giving of such notice, have failed with reasonable diligence to commence and to pursue reasonable action to remedy the act or omission within sixty (60) days of such notice.

SECTION 22

WAIVER

There shall be no waiver by Landlord or Tenant of any rights granted pursuant to this Lease unless done so in writing, signed by an authorized representative of Landlord. The waiver by Landlord or Tenant of any breach of any term, covenant, or condition in this Lease shall not be deemed to be a waiver of the term, covenant, or condition, or any subsequent breach of the same or any other term, covenant, or conditions. The acceptance of Rent hereunder shall not be construed to be a waiver of any breach by Tenant of any term, covenant, or condition of this Lease, it being understood and agreed that the remedies given to Landlord shall be cumulative, and the exercise of any one remedy by Landlord shall not be to the exclusion of any other remedy.

SECTION 23

SALE BY LANDLORD

In the event of a sale or conveyance or transfer by Landlord of its interest in the Premises, and/or in this Lease, each such Transferee shall be required to assume the obligations of Landlord hereunder, and such transfer shall then operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in favor of Tenant, and in that event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease provided that, in any event, Landlord shall not be relieved of (i) obligations of Landlord the due date of performance of which arose prior to the date of disposition by Landlord, (ii) warranties of Landlord contained in Section 3.5 of this Lease, and (iii) indemnities of Landlord contained in this Lease with respect to causes of action which arise prior to the date of disposition by Landlord. This Lease shall not be affected by any such conveyance or transfer, and Tenant agrees to attorn to such to such purchaser or transferee.

SECTION 24

RIGHT OF LANDLORD TO PERFORM

All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole cost and expense, and without any abatement of Rent. If Tenant shall fail to pay any sum of money, other than Base Rent, required to be paid by it, or shall fail to perform any other act on its part to be performed, and the failure shall continue for thirty (30) days after written notice by Landlord, Landlord may, but shall not be obligated to do so, and without waiving or releasing Tenant from any obligations of Tenant, make any payment or perform any other act on Tenant's part to be made or performed as provided for in this Lease. Notwithstanding anything else in this Lease to the contrary, upon any failure by Tenant to perform any of its obligations under this Lease, the failure of which threatens bodily injury, property damage or a violation of any law, statute, ordinance or regulation, Landlord may, but shall not be obligated to, take any reasonable action or make any payment to remedy or alleviate the situation. In any such event, notice of the situation shall be given to Tenant as soon as possible, but not later than within 24 hours of Landlord's commencement of the remediation. All sums so paid by Landlord and all necessary incidental costs, plus a ten percent (10%) administrative charge, shall be payable to Landlord within thirty (30) days of Landlord's request, and Tenant covenants to pay any such sums, and Landlord shall have (in addition to any other right or remedy of Landlord) the same rights and remedies in the event of the non-payment thereof by Tenant, as in the case of default by Tenant in the payment of Rent.

SECTION 25

ATTORNEYS' FEES

If any dispute arises between the parties to this Lease, then either party may submit the dispute to binding arbitration if the other party so consents. If any party breaches this Lease, the other party shall be entitled to collect its reasonable attorneys' fees, arbitration fees, court costs, expert witness fees, and other incidental expenses from the breaching party incurred to enforce this Lease whether or not a suit has been commenced, all in addition to any other remedies or damages that may be available.

SECTION 26

ESTOPPEL CERTIFICATE

26.1 Tenant Estoppel. Tenant shall, upon the Commencement Date and at any time and from time to time thereafter, upon not less than ten (10) business days' prior written notice from Landlord, execute, acknowledge, and deliver to Landlord a statement in writing certifying that Tenant is in possession of the Premises, subject to no protest or reservation of rights, that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this lease, as so modified, is in full force and effect) and the dates to which the Rent and other charges are paid, and acknowledging that Tenant is paying Rent on a current basis with no offsets or claims, and there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder (or specifying the defaults, if any are claimed), and addressing such other matters as reasonably requested by Landlord or the holder of a mortgage. It is expressly understood and agreed that any such statement may be relied upon by any prospective purchaser or encumbrancer of all or any portion of the Premises or by any other person to whom it is delivered. Tenant's failure to deliver the statement within the required time shall be conclusive

upon Tenant that this Lease is in full force and effect, without modification except as may be represented by Landlord, that there are no uncured defaults in Landlord's performance, that not more than two (2) months' rental has been paid in advance and that Tenant is in possession subject to no protest or reservation of rights.

26.2 Landlord Estoppel. Landlord shall, from time to time, upon not less than ten (10) business days prior written notice from Tenant, execute acknowledge, and deliver to Tenant a statement, in writing, certifying that Landlord is in title to the Premises, that this Lease is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this lease, as so modified, is in full force and effect) and the dates to which the Rent and other charges are paid, and acknowledging that Tenant is paying Rent on a current basis with no offsets or claims, and there are not, to Landlord's actual knowledge, without obligation to inspect the Premises, any uncured defaults on the part of Tenant hereunder (or specifying the defaults, if any are claimed).

SECTION 27

PURCHASE OPTION

27.1 Price. Landlord hereby grants Tenant the one time exclusive option ("Purchase Option") to purchase the Premises (except in case of default by Landlord and exercise pursuant to Section 3.3(b) and except as provided in Section 18.3(a)). The purchase price shall equal Landlord's Work Costs plus the Transfer Costs. Landlord's Work Costs shall be equal to all costs incurred by Landlord in development, financing, and construction of the project the general categories of which are more specifically set forth on Schedule II and which shall include, but not be limited to, all costs approved by Tenant. Transfer Costs shall equal all costs incurred by Landlord to sell the Premises to Tenant including, but not limited to, financing penalties, prepayment penalties, permanent loan fees, commitment fees (including the \$318,000 set forth as item F.2. on Schedule II to the extent not included in Landlord's Work Costs), closing costs, title insurance premiums, attorneys fees, and each and every other cost incurred by Landlord plus \$50,000 to cover Landlord's non-itemized internal costs. If Tenant elects the purchase option, the Premises shall be sold on an "AS-IS", "WHERE-IS" basis and Landlord shall make no representations or warranties of any nature except to convey title to Tenant in fee simple absolute subject to all exceptions shown on the title insurance commitment as of the time Landlord purchased the Premises plus any other title matters consented to by Tenant. Tenant shall indemnify and hold Landlord harmless from any Environmental Claims except those directly caused by Landlord during its construction activities. In order to exercise this option Tenant shall give Landlord notice on or before March 31, 1996 ("Exercise Notice"). The Closing Date shall occur within thirty (30) days after the Commencement Date or at such other time agreed to by Landlord and Tenant. Within fifteen (15) days of Landlord's receipt of the Exercise Notice, Landlord shall prepare the necessary contract for sale of the property which shall be executed by Tenant within thirty (30) days of the Exercise Notice. The contract shall be a specific performance contract and Tenant's title policy shall be evidenced by an ALTA owners form policy of title insurance in favor of Tenant in the amount of the purchase price. If Tenant fails to close by reason of Tenant's default, this Purchase Option shall terminate, Tenant shall be deemed to be in default under this Lease, and Landlord may elect to pursue specific performance, damages or other remedies under this Lease, or continue the Lease without any rights of first offer, refusal, extension or expansion.

SECTION 28

EXPANSION OPTION

At Tenant's request, Landlord will use its best efforts to expand the Premises to include up to an additional 100,000 square feet of leasable space ("Phase II Premises") provided that Tenant has not defaulted under the terms of this Lease and Tenant's financial strength and credit ratings are at least as strong as they are upon the execution of this Lease. Landlord shall not be obligated to spend more than \$8,000,000 for Landlord's Work Costs to construct the Phase II Premises. Tenant shall pay all construction costs in excess of \$8,000,000 plus all financing costs and prepayment penalties related to refinancing the

Premises to provide for the Phase II Premises. Prior to the commencement of the construction of the Phase II Premises Tenant shall execute a modification of this Lease which shall provide as follows:

The term of this Lease shall be extended to fifteen (15) years from the Substantial Completion of the Phase II Premises with the Base Rent for the existing Premises ("Phase I Premises") to remain as provided for in this Lease except that the escalators provided for in Section 4.1 shall continue through the end of the revised term. The Base Rent for the Phase II Premises shall equal the product of Landlord's Work Costs for the Phase II Premises multiplied by the Rent Constant Factor. The Rent Constant Factor shall be determined using a 15 year amortization period and the Debt Constant. The Debt Constant shall equal the lowest commercially available rate which Landlord can obtain. FOR EXAMPLE, IF THE DEBT CONSTANT IS 8.5% AND THE AMORTIZATION PERIOD IS 15 YEARS THEN THE RENT CONSTANT FACTOR EQUALS 11.8169. IF THE LANDLORD'S WORK COST OF THE PHASE II PREMISES IS 8,000,000 THEN THE BASE RENT FOR THE PHASE II PREMISES PER YEAR SHALL EQUAL \$945,352 ($\$8,000,000 \times .118169$) PLUS ESCALATORS EVERY 30 MONTHS AS PROVIDED FOR IN SECTION 4.1.

Landlord shall not build on the Premises for the benefit of anyone other than Tenant. If, for any reason Landlord fails to perform its obligation to expand the Premises with reasonable diligence, then Tenant's sole remedy shall be to perform the construction at Tenant's own expense. In such event Tenant may extend the Lease Term for up to an additional fifteen (15) years from the date of Substantial Completion thereof and at no increase in Base Rent on account of such expansion. Notwithstanding the above, if Tenant assigns this Lease after the fifth anniversary, Landlord may elect in its sole discretion not to provide funding for the expansion.

SECTION 29

RIGHT OF FIRST OFFER

If Landlord desires to offer the Premises for sale after expiration or termination of the Purchase Option set forth in Section 27 and provided that the right granted in this Section has not otherwise been terminated and that Tenant is not in default under this Lease, then Landlord shall first offer the Premises for sale to Tenant ("Sale Notice") for an amount equal to the price that Landlord is willing to accept for the purchase of the Premises ("Desired Sale Price"). Upon Tenant's receipt of the Sale Notice Tenant shall have forty-five (45) days within which to elect to purchase the Premises at the Desired Sale Price by delivering a written notice to Landlord of its election to do so. If Tenant delivers a timely written notice of its election to exercise its option to purchase under this Section 29, then Tenant shall purchase the Premises for the amount equal to the Desired Sale Price pursuant to the terms set forth in Section 27.1. If Tenant fails to deliver a timely notice of exercise of its rights under this Section, then Landlord shall be free to offer the Premises for sale and accept any offer that is equal to or greater than 90% of the Desired Sale Price at any time within one (1) year of the Sale Notice. If Landlord desires to accept a sale price less than

90% of the Desired Sale Price, then Landlord shall be obligated to re-offer the Premises for sale to Tenant pursuant to the terms of this Section 29. Notwithstanding the above, if Tenant does not exercise its right to purchase set forth in Section 27 then Landlord may sell the Premises during the 12-months following the Commencement Date without compliance with this Section.

SECTION 30

OPTIONS TO EXTEND

Provided that Tenant is not in default under this Lease and provided that the right granted in this Section has not otherwise been terminated, Tenant shall be entitled to two successive extension options, each option to have a duration of five years ("Option to Extend"). If Tenant desires to exercise an Option to Extend, Tenant shall give notice to Landlord at least one (1) year prior to the end of the Lease Term in the case of the first Option to Extend and one (1) year prior to the expiration of the first Option to Extend term in the case of the second Option to Extend. If Tenant exercises an Option to Extend, the Lease Term shall be extended by an additional five (5) years and all of the terms and provisions of the Lease shall remain the same including that Base Rent shall continue to escalate pursuant to Section 4.1. Except for elimination of the Option to Extend exercised, all terms of the Lease shall remain in full force and effect during the Option to Extend term.

SECTION 31

MISCELLANEOUS PROVISIONS

31.1 Authority of Tenant. If Tenant is a corporation, each individual

executing this Lease on behalf of said corporation represents and warrants that he is duly authorized to execute and deliver this Lease on behalf of said corporation in accordance with a duly adopted resolution of the Board of Directors or the By-Laws of said corporation, and that this Lease is binding upon said corporation in accordance with its terms. In addition, Tenant shall, at the time of execution of this Lease, deliver to Landlord a certified copy of a resolution of the Board of Directors of said corporation authorizing or ratifying the execution of this Lease or other evidence acceptable to Landlord authorizing the signatory on behalf of Tenant to execute this Lease and bind Tenant in accordance with its terms. Landlord represents and warrants that Randolph P. Myers is duly authorized to execute this Lease and bind Landlord in accordance with its terms. Landlord shall at the time of execution of this Lease deliver to Tenant a certified copy of Minutes of Action of Landlord authorizing the execution of this Lease.

31.2 Financial Statements. Tenant shall, when requested by Landlord from time to time for purposes of delivering to prospective lenders or buyers, furnish current, published audited financial statements.

31.3 Authorities for Action. Landlord may act through its managing agent for the Improvements or through any other person who may from time to time be designated by Landlord in writing. Tenant shall designate in writing one or more persons to act on its behalf and may from time to time change such designation by written notice to Landlord. In the absence of any such designation, the person or persons executing this Lease on behalf of Tenant shall be deemed to be authorized to act on behalf of Tenant in any matter provided for herein.

31.4 Entire Agreement.

a. Tenant acknowledges and agrees that it has not relied upon any statements, representations, agreements or warranties except those expressed in this Lease, and that this Lease contains the entire agreement of the parties. No amendment or modification of this Lease shall be binding or valid unless expressed in writing and executed and delivered by Landlord and Tenant in the same manner as the execution of this Lease.

b. The submission of this document for examination and review does not constitute an option, an offer to lease space, or an agreement to lease space. This document shall have no binding effect on the parties hereto unless and until executed and delivered by both Landlord and Tenant and will be effective only upon Landlord's execution and delivery of same.

31.5 Force Majeure. Any obligation of Landlord or Tenant other than the obligation to pay money which is delayed or not performed due to Acts of God, strike, riot, shortages of labor or materials, war (whether declared or undeclared), governmental laws, regulations or restrictions, governmental action, or lack thereof, or any other causes of any kind whatsoever which are beyond Landlord's or Tenant's reasonable control, shall not constitute a default hereunder and shall be performed within a reasonable time after the end of such cause for delay or nonperformance.

31.6 Severability. If any term or provision of this Lease or the application thereof to any person or circumstances shall, to any extent, be illegal, invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those to which it is held invalid or unenforceable, shall not be affected thereby, and all other terms and provisions of this Lease shall be valid and enforced to the fullest extent permitted by law.

31.7 No Setoff. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent, and Tenant shall not be entitled to any setoff, offset, abatement or deduction of Rent or other amounts due Landlord hereunder if Landlord fails to perform its obligations hereunder except as provided for in Section 18.3(c); provided, however, the foregoing shall in no way impair the right of Tenant to commence a separate action against Landlord for any violation by Landlord of the provisions hereof or to which Tenant has not waived any claim pursuant to the provisions of this Lease so long as notice is first given to Landlord and any holder of a Mortgage, and a reasonable opportunity is granted to Landlord and such holder to correct such violation. In no event shall Landlord, or any holder of a Mortgage be responsible for any consequential damages

incurred by Tenant, including, without limitation, lost profits or interruption of business, as a result of any default by Landlord.

31.8 Relationship of Parties. Nothing contained in this Lease shall

create any relationship between the parties hereto other than that of Landlord and Tenant, and it is acknowledged and agreed that Landlord shall not be deemed to be a partner of Tenant in the conduct of its business, or a joint venturer or a member of a joint or common enterprise with Tenant.

31.9 Successors Bound. Except as otherwise specifically provided herein, the terms, covenants and conditions contained in this Lease shall bind and inure to the benefit of the respective heirs, successors, executors, administrators and assigns of each of the parties hereto.

31.10 Interpretation.

a. Whenever in this Lease any words of obligation or duty are used, such words or expressions shall have the same force and effect as though made in the form of a covenant.

b. Words of any gender used in this Lease shall be deemed to include any other gender, and words in the singular shall be deemed to include the plural, when the context requires.

c. All pronouns and any variances thereof shall be deemed to refer to the neuter, masculine, feminine, singular or plural, when the context requires.

d. No remedy or election given pursuant to any provision in this Lease shall be deemed exclusive unless so indicated, but each shall, wherever possible, be cumulative with all other remedies at law or in equity as otherwise specifically provided herein.

e. If and to the extent that, any of the provisions of any amendment, modification or rider to this Lease conflict or are otherwise inconsistent with any of the preceding provisions of this Lease, or of the Rules and Regulations appended to this Lease, whether or not such inconsistency is expressly noted in such amendment, modification or rider, the provisions of such amendment, modification or rider shall prevail, or in case of any inconsistency with the Rules and Regulations, such Rules and Regulations shall be deemed to be waived with respect to Tenant to the extent of such inconsistency.

f. The parties mutually agree that the headings and captions contained in this Lease are inserted for convenience of reference only, and are not to be deemed part of or to be used in construing this Lease.

g. This Lease shall be construed in accordance with the laws of the state in which the Improvements are located. Unless herein waived, Landlord and Tenant

acknowledge that all of the applicable statutes of such state are superimposed on the rights, duties and obligations of Landlord and Tenant hereunder.

h. Except as expressly contained herein, neither Landlord nor Landlord's agent or attorneys have made representations, warranties or promises with respect to the Premises or this Lease.

i. Landlord and Tenant each acknowledge and warrant that each has been represented by independent counsel and has executed this Lease after being fully advised by said counsel as to its effect and significance. This Lease is the result of negotiations between the parties and their respective attorneys and shall be construed in an even and fair manner, regardless of the party who drafted this Lease, or any provision thereof.

j. In all instances where Tenant is required by the terms and provisions of this Lease to pay any sum of money or to do any act at a particular indicated time or within any indicated period, it is understood and agreed that time is of the essence.

31.11 Easements. Landlord shall have the right to grant any easements on, over, under and above the Premises for such purposes as Landlord determines subject to Tenant's consent which shall not be withheld if such easements will not materially interfere with Tenant's use or quiet enjoyment of the Premises.

31.12 Short Form Lease. Landlord and Tenant agree to execute and acknowledge a short form lease in recordable form, indicating the names and addresses of Landlord and Tenant, a description of the Premises, the Term, the Commencement and Expiration Dates, and options for renewal, right of first offer, and purchase, but omitting rent and other terms of this Lease. Further, upon Landlord's request, Tenant agrees to execute and acknowledge a termination of lease or quit claim deed in recordable form to be held by Landlord until the Expiration Date or sooner termination of the Term.

31.13 Landlord's Failure to Consent. If Tenant shall request Landlord's consent hereunder and Landlord shall fail or refuse to give such consent, Tenant

shall not be entitled to any damages for the withholding of its consent, it being intended that Tenant's sole remedy shall be an action for specific performance or injunction and that such remedy shall be available only in those cases where Landlord has expressly agreed in writing not to unreasonably withhold its consent or where, as a matter of law, Landlord may not unreasonably withhold its consent.

31.14 Notices. Any and all notices, elections, offers, acceptances and demands made or required to be made under this Agreement shall be made in writing, signed by the party giving such notice, election, offer, acceptance or demand and shall be delivered personally, or sent by registered or certified mail, or sent by reliable overnight express service to the other parties at their addresses set forth below or at such other addresses as may be supplied in writing to the parties from time to time. All notices shall be deemed effective at the time of personal delivery, one day following delivery to an overnight express courier service, or on the date set forth on the receipt for registered or certified mail, as applicable, except that if delivery by U.S Mail or overnight courier is not successful upon the first

attempt, second notice shall be mailed and shall be deemed effective upon the date of mailing.

Landlord:

QD Investors
2290 E. Prospect Road, Suite One
Fort Collins, CO 80525

With a Copy To:

Peter K. Kloepfer
Lentz, Evans and King P.C.
1660 Lincoln Street, Suite 2900
Denver, CO 80264

Tenant:

Quantum Corporation
500 McCarthy Blvd.
Milpitas, CA 95035
Attn: Norman H. Claus
Vice-President Real Estate
Corporate Services

With a Copy to:

Ronald L. Jacobson
Cooley Godward
Five Palo Alto Square,
4th Floor
Palo Alto, CA 94306-2155

31.15 Real Estate Broker. Landlord hereby agrees to be liable for up to \$400,000 of any broker's, finder's or similar fees or commissions due in connection with the transaction payable to Cornish & Carey Commercial and Frederick Ross Company ONCOR International Companies. Except as set forth above, each party represents that no other broker's, finder's or similar fee or commission are due in connection with the transaction contemplated by this Agreement and each party hereby agrees to indemnify and hold harmless the other party from any claim, expense or cost (including attorneys fees whether suit be brought or not) resulting from any claim for such fee or commission.

31.16 No Merger. The voluntary or other surrender of possession of the Premises by Tenant, or a mutual cancellation of this Lease, shall not result in a merger of Landlord's and Tenant's estates, and shall, at the option of Landlord, either terminate any or all existing subleases or subtenancies, or operate as an assignment to Landlord of any or all of such subleases or subtenancies.

31.17 No Light or Air Easement. This Lease does not grant any rights to light or air over the Premises or the Property to the extent such items are affected by the acts of owners of property other than the Premises. Any diminution or shutting off of light or air by any structure which is now or hereafter erected on the Property or upon property adjacent to the Property shall not affect this Lease or impose any liability on Landlord.

31.18 Time is of Essence. Time is of the essence with respect to the obligations to be performed under this Lease.

31.19 Auctions. Tenant shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Landlord's prior written consent. Notwithstanding anything to the contrary in this Lease, Landlord shall not be obligated to exercise any standard of

reasonableness in determining whether to grant such consent. The holding of any auction on the Premises or Common Areas in violation of this Section shall constitute a material default of this Lease.

31.20 Security Measures. Tenant hereby acknowledges that Landlord shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Improvements. Tenant assumes all responsibility for the protection of Tenant, its agents, its employees and invitees and the property of Tenant and of Tenant's agents and invitees from acts of third parties.

31.21 Successors and Assigns. Subject to the terms and provisions of Section 23, the covenants and conditions contained in this Lease shall apply to and bind the respective heirs, successors, executors, administrators, and assigns of the parties hereto, and the terms "Landlord" and "Tenant" shall include the successors and assigns of either such party, whether immediate or remote.

31.22 Quiet Enjoyment. Subject to the terms and conditions of this Lease, Landlord covenants and agrees that Tenant, upon complying with all of the obligations of Tenant under this Lease shall peaceably and quietly enjoy the Premises and Tenant's rights under this Lease during its Term, without hindrance by Landlord or any persons claiming under Landlord.

SECTION 32

CONTINGENCIES

32.1 Land Purchase and Financing. The terms of this Lease are expressly conditioned upon:

a. Landlord arranging financing acceptable to Landlord and Tenant (as to funding by Tenant of Tenant's Work Costs) and in accordance with the Interim Agreement;

b. The Neenan Company's execution of a construction contract acceptable to Tenant to construct the Premises.

If the foregoing conditions are not satisfied or waived by September 15,, 1995, then this Lease and all other obligations and rights set out above shall be void and of no further effect, subject nevertheless to the provisions of the Interim Agreement.

SECTION 33

FINANCING LIMIT

Landlord shall not encumber the Premises with indebtedness the principal amount of which is in excess of Landlord's Financing Limit. During the first thirty (30) months of the Lease Term, Landlord's Financing Limit shall equal fifteen million dollars (\$15,000,000). At all times thereafter Landlord's Financing Limit shall equal the appraised fair market value of the Premises based upon the Rent required to be paid pursuant to this Lease as determined by an Independent MAI appraiser familiar with real property in the geographic location of the Premises.

IN WITNESS WHEREOF, Landlord and Tenant have respectively executed this Lease as of the day and year first above written.

LANDLORD: QD INVESTORS, a Colorado limited liability company

By: /s/ Randolph P. Myers

TENANT: QUANTUM CORPORATION, a Delaware corporation

By: /s/ Andy Kryder
Andy Kryder, Vice-President, Finance

By: /s/ /Norm Claus
Norm Claus, Vice President, Real Estate
and Corporate Services

QUANTUM CORPORATION

COMPUTATION OF NET INCOME PER SHARE
(In thousands except per share data)

	Three Months Ended		Nine Months Ended	
	Dec. 31, 1995	Jan. 1, 1995	Dec. 31, 1995	Jan. 1, 1995
	-----	-----	-----	-----
PRIMARY				
Weighted average number of common shares during the period	52,941	45,448	51,131	45,167
Incremental common shares attributable to exercise of outstanding options	0	0	3,334	2,013
	-----	-----	-----	-----
Total shares	52,941	45,448	54,465	47,180
Net income (loss)	\$ (2,481)	\$ (48,310)	\$ 32,486	\$ 58,534
Net income (loss) per share	\$ (0.05)	\$ (1.06)	\$ 0.60	\$ 1.24
FULLY DILUTED				
Weighted average number of common shares during the period	52,941	45,448	51,131	45,167
Incremental common shares attributable to exercise of outstanding options and conversion of 6 3/8% convertible subordinated debentures	9,825	13,618	11,731	13,722
	-----	-----	-----	-----
Total shares	62,766	59,066	62,862	58,889
Net income (loss):				
Net income (loss)	\$ (2,481)	\$ (48,310)	\$ 32,486	\$ 58,534
Add 6 3/8% convertible subordinated debentures interest, net of income tax effect	1,500	2,026	4,837	6,146
	-----	-----	-----	-----
Net income (loss), as adjusted	\$ (981)	\$ (46,284)	\$ 37,323	\$ 64,680
Net income (loss) per share	\$ (0.02)*	\$ (0.78)*	\$ 0.59	\$ 1.10

* The primary net income (loss) per share is shown in the statements of operations as both primary and fully diluted, as the effect of the assumed conversion of the subordinated debentures is anti-dilutive.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM
THE FINANCIAL STATEMENTS OF QUANTUM CORPORATION FOR THE QUARTER ENDED
DECEMBER 31, 1995.

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